

**ROCK RAPIDS MUNICIPAL UTILITIES,
A COMPONENT UNIT OF
THE CITY OF ROCK RAPIDS**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2013

*De Noble, Austin & Company PC
Certified Public Accountants
Rock Rapids, Iowa*

Table of Contents

	<u>Pages</u>
Officials	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-12
Basic Financial Statements:	<u>Exhibit</u> 13
Government-Wide Financial Statements:	
Statement of Net Position	A 14-15
Statement of Activities	B 16
Governmental Fund Financial Statements:	
Balance Sheet	C 17
Statement of Revenues, Expenditures and Changes in Fund Balance	D 19
Proprietary Fund Financial Statements:	
Statement of Net Position	E 20-21
Statement of Revenues, Expenses and Changes in Fund Net Position	F 22-23
Statement of Cash Flows	G 24-27
Notes to Financial Statements	28-47
Required Supplementary Information:	49
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – Governmental Fund and Proprietary Funds	50
Budget to GAAP Reconciliation	51
Notes to Required Supplementary Information – Budgetary Reporting	52
Supplementary Information:	<u>Schedule</u> 53
Electric Utility Fund:	
Comparative Statements of Net Position (June 30, 2013 and June 30, 2012)	1 54-55
Comparative Statements of Net Position (June 30, 2013 and June 30, 2011)	2 56-57
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2012)	3 58
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2011)	4 59
Water Utility Fund:	
Comparative Statements of Net Position (June 30, 2013 and June 30, 2012)	5 60-61
Comparative Statements of Net Position (June 30, 2013 and June 30, 2011)	6 62-63
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2012)	7 64
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2011)	8 65
Sewer Utility Fund:	
Comparative Statements of Net Position (June 30, 2013 and June 30, 2012)	9 66-67
Comparative Statements of Net Position (June 30, 2013 and June 30, 2011)	10 68-69
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2012)	11 70
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2011)	12 71

Table of Contents**(Continued)**

Supplementary Information (Continued):	<u>Schedule</u>	<u>Pages</u>
Gas Utility Fund:		
Comparative Statements of Net Position (June 30, 2013 and June 30, 2012)	13	72-73
Comparative Statements of Net Position (June 30, 2013 and June 30, 2011)	14	74-75
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2012)	15	76
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position (Fiscal Years Ending June 30, 2013 and June 30, 2011)	16	77
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		79-82
Schedule of Findings		83-89
Staff		90

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Officials

Name	Title	Term Expires
Stanley Knobloch	Board of Trustees Chairman	August 31, 2013
David Foltz	Board of Trustees Vice Chairman	August 31, 2017
Randal Koll	Board of Trustees Member	August 31, 2015
George Schneidermann	Board of Trustees Ex-Official Member	August 31, 2013
Jordan Kordahl	Board of Trustees Secretary	Indefinite
James Hoye	Utilities Manager	Indefinite
Austin, Haberkorn & Kippley	Attorneys	Indefinite

DE NOBLE, AUSTIN & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246
www.denoblepc.com

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549
Fax : (712) 472-2540
Email : cpas@denoblepc.com

Independent Auditor's Report

To the Members of the Utilities Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

As discussed in Note (1) to the financial statements, management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease fund net position of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amount by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the business type activities and each major proprietary fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, at June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental major fund of the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, at June 30, 2013, and respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 5 through 12 and 50 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate, operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. general accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two fiscal years ended June 30, 2012 (which are not presented herein) and expressed dual adverse opinions/unqualified opinions on those financial statements. We expressed dual adverse opinions for the two fiscal years ended June 30, 2012 because management did not record the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, did not record the corresponding OPEB expense. There were also no disclosures reported on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America required that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease fund net position of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The supplementary information included in Schedules 1 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of not recording the net OPEB liability and the corresponding expense in the business type activities and proprietary funds and not reporting disclosures on the net OPEB obligation in the notes to the financial statements for the fiscal year ended June 30, 2013, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2014 on our consideration of the Rock Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Rock Rapids Municipal Utilities' internal control over financial reporting and compliance.

De Noble, Austin & Company PC

De Noble & Company PC
d/b/a De Noble, Austin & Company PC
Certified Public Accountants

January 27, 2014

Management's Discussion and Analysis

The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- The Utilities' total net position increased 4.7% during the fiscal year ended June 30, 2013. The total net position increased from \$15,201,172 to \$15,912,249 a \$711,077 increase. The governmental activities net position increased by \$128 and the business type activities increased by \$710,949.
- The utilities' governmental activities received a \$300,000 USDA grant in the prior fiscal year to assist in establishing a Revolving Loan Fund. The Revolving Loan Fund earned \$128 in interest income this fiscal year.
- The Utilities' business type activities total revenues/special items/extraordinary items increased 8.8% during the fiscal year ended June 30, 2013. The total revenues/special items/extraordinary items increased from \$4,279,360 to \$4,663,741, a \$384,381 increase. The increase is mainly due to an increase in charges for services and receipt of a FEMA Disaster Grant.
- The Utilities' business type activities total expenses/special items increased 2.6% during the fiscal year ended June 30, 2013. The total expenses increased from \$3,852,651 to \$3,952,792, a \$100,141 increase. The increase is due to increases in operational expense for each utility.
- The change in net position for the fiscal year ended June 30, 2013 for each individual Enterprise Fund was as follows:

Electric Utility	\$ 475,424
Water Utility	139,847
Sewer Utility	(9,173)
Gas Utility	104,851
Total	<u>\$ 710,949</u>

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

The Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Government-Wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

The Fund Financial Statements report the Utilities' operations in more detail than the Government-Wide Financial Statements by providing information about each of the funds.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

The Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

The Supplementary Information provides detailed comparison information for each existing Utility for the fiscal year ended June 30, 2013, compared to the fiscal years ended June 30, 2012 and 2011.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-Wide Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the Utilities' net position may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Activities presents information showing how the Utilities' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Position and the Statement of Activities report two kinds of activities:

- Governmental activities include economic development through the Revolving Loan Fund.
- Business type activities include the Electric, Water, Sewer and Gas Utility departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has two kinds of funds:

- (1) The Utilities has a Governmental (Special Revenue) Fund to account for a revolving loan program that was originally established through \$300,000 in funding provided by a "Rural

Economic Development Grant” and a \$60,000 matching contribution from the Gas Utility Fund. This fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund financial statements provide a detailed, short-term view of the Utilities’ governmental operation and the basic service it is providing. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Utilities’ program.

The required financial statements for the Governmental Fund include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance.

- (2) Proprietary Funds are used to account for the Utilities’ Enterprise Funds. These funds report services for which the Utilities charges customers for the service it provides. Proprietary Funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Fund statements. The Enterprise Funds include the Electric, Water, Sewer and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for intended purposes and by those to whom the assets belong.

The financial statements required for the Proprietary Funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for governmental and business type activities from a year ago.

	Governmental Activities		Business Type Activities	
	Net Position at Year End		Net Position at Year End	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Current Assets	\$ 102,128	\$ 66,000	\$ 5,014,454	\$ 4,926,804
Restricted Cash	0	0	68,727	91,238
Capital Assets (Net)	0	0	10,526,770	10,035,535
Other Assets	258,000	294,000	272,553	262,553
Total Assets	360,128	360,000	15,882,504	15,316,130
Current Liabilities				
(Payable from Current Assets)	0	0	241,012	373,617
Current Liabilities				
(Payable from Restricted Assets)	0	0	55,209	67,893
Long-Term Liabilities	0	0	34,162	33,448
Total Liabilities	0	0	330,383	474,958

Net Position:

Net Investment in Capital Assets	0	0	10,526,770	10,035,535
Restricted	360,128	360,000	13,518	23,345
Unrestricted	0	0	5,011,833	4,782,292
Total Net Position	<u>\$ 360,128</u>	<u>\$ 360,000</u>	<u>\$ 15,552,121</u>	<u>\$ 14,841,172</u>

The largest portion of the Utilities' business type activities net position is the net investment in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment, intangibles and construction work in progress) (67.7% of the business type activities net position total for fiscal year ended June 30, 2013). For fiscal years ended June 30, 2013 and June 30, 2012, there is no capital assets related external debt. Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used (100% of the net position total for governmental activities and 0.1% of the net position total for business type activities for fiscal year ended June 30, 2013). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements (32.2% of the net position total for business type activities for fiscal year ended June 30, 2013).

	Governmental Activities		Business Type Activities	
	Change in Net Position		Change in Net Position	
	For the Year Ended		For the Year Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenues:				
Program Revenues:				
Charges for Services	\$ 0	\$ 0	\$ 4,208,124	\$ 3,730,495
Restricted Interest	128	0	0	0
General Revenues:				
Gain on Disposal of Capital Assets	0	0	17,150	750
Rentals	0	0	6,880	6,880
Customer Penalties/Credit Card Fees	0	0	2,721	2,360
Interest Income	0	0	93,188	88,983
Gas Rate Case Settlement	0	0	0	3,304
Miscellaneous Income	0	0	53	649
Insurance Proceeds (Ice Storm)	0	0	3,356	0
Insurance Settlement	0	0	5,702	0
Construction Support Payment	0	0	3,176	0
Total Revenues	<u>128</u>	<u>0</u>	<u>4,340,350</u>	<u>3,833,421</u>
Program Expenses:				
Electric	0	0	2,154,204	2,044,812
Water	0	0	549,218	514,108
Sewer	0	0	251,670	238,619
Gas	0	0	984,979	911,393
Total Expenses	<u>0</u>	<u>0</u>	<u>3,940,071</u>	<u>3,708,932</u>

Special Items:

USDA-Rural Economic Development	0	300,000	0	0
Energy Efficiency & Conservation				
Block Grant	0	0	15,509	65,219
Hazard Mitigation Grant	0	0	32,782	380,720
Free Community Service (Related	0	0	(12,721)	(143,719)
Total Special Items	0	300,000	35,570	302,220

Extraordinary Item:

FEMA Disaster Grant (Ice Storm)	0	0	275,100	0
---------------------------------	---	---	---------	---

Increase in Net Position	128	300,000	710,949	426,709
Net Position Beginning of Year	360,000	60,000	14,841,172	14,414,463
Net Position End of Year	\$ 360,128	\$ 360,000	\$ 15,552,121	\$ 14,841,172

The "Increase in Net Position" from fiscal year ended June 30, 2013, compared to June 30, 2012, was lower by \$(299,872) (-99.9%) in the governmental activities and higher by \$284,240 (66.6%) in the business type activities. The Utilities total net position (governmental activities and business type activities) increased 4.7% during the fiscal year ended June 30, 2013. The reason the "Increase in Net Position" was down significantly in the governmental activities was due to the one time USDA-Rural Economic Development Grant received in the prior fiscal year. The primary reason the amount of "Increase in Net Position" in the business type activities was higher than last year was the result of program revenues (increased \$477,629) rising more than program expenses (increased \$231,139) and by receipt of a FEMA Disaster Grant.

INDIVIDUAL MAJOR FUND ANALYSIS**Revolving Loan Fund (Special Revenue)**

The Revolving Loan Fund was established by a \$60,000 transfer from the Gas Utility Fund during fiscal year ended June 30, 2011. The \$60,000 was the Utilities match needed to qualify in fiscal year ended June 30, 2012 for a \$300,000 "Rural Economic Development Grant" for this fund. The initial \$360,000 was loaned to help in the funding of building a commercial spec building that was sold on contract to a local businessman. The contract and collateral were assigned to the Utilities. As this contract is repaid, the Utilities will have money available that can be loaned to area businesses for new endeavors, to maintain retention or for expansion.

Operating Revenues (Utility Funds)

Electric operating revenues were \$2,283,704, up \$218,494 or 10.6% from the previous fiscal year. The increased revenues were the result of increased residential and commercial usage and a rate increase in July 2012.

Water operating revenues were \$678,690, up \$140,553 or 26.1% from the previous fiscal year, due mainly to an increase in water rates during the fiscal year and in sales to Lyon and Sioux Rural Water System, Inc.

Sewer operating revenues were \$242,318, up \$6,216 or 2.6% from the previous fiscal year, which was comparable.

Gas operating revenues were \$1,003,412, up \$112,366 or 12.6% from the previous fiscal year, due mainly to an increase in the volume of commodity sales sold.

Operating Expenses (Utility Funds)

Electric operating expenses were \$2,153,979, up \$109,380 or 5.3% from last fiscal year, due primarily to an increase in purchased power costs.

Water operating expenses were \$496,209, up \$15,633 or 3.3% from last fiscal year, due primarily to an increase in purchased water from Lewis & Clark Regional Water System, Inc.

Sewer operating expenses were \$248,927, up \$13,812 or 5.9% from last fiscal year, due primarily to an increase in processing expenses.

Gas operating expenses were \$984,685, up \$73,557 or 8.1% from last fiscal year, due primarily to an increase in the volume of commodity purchases.

Net Position (Utility Funds)

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2013 with a \$6,653,699 net position balance compared to the prior year ending net position balance of \$6,178,275 (\$475,424 increase or 7.7%). The prior fiscal year change was an increase of \$343,925. Besides the increase in operating revenues exceeding the increase in operating expenses, the Utilities had grant income of \$323,391 (Energy Efficiency and Conservation Block Grant, Hazard Mitigation Grant Program, FEMA Disaster Grant).

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2013 with a \$3,057,739 net position balance compared to the prior year ending net position balance of \$2,917,892 (\$139,847 increase or 4.8%). The prior fiscal year change was an increase of \$25,385. The change in net position was more than last fiscal year due to the change in operating revenues was higher than the change in operating expenses.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2013 with a \$1,056,133 net position balance compared to the prior year ending net position balance of \$1,065,306 (\$9,173 decrease or 0.9%). The prior fiscal year change was a decrease of \$2,334.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2013 with a \$4,784,550 net position balance compared to the prior year ending net position balance of \$4,679,699 (\$104,851 increase or 2.2%). The prior fiscal year change was an increase of \$59,733.

BUDGETARY HIGHLIGHTS

During fiscal year ended June 30, 2013, the Rock Rapids Municipal Utilities amended its budget one time on May 28, 2013. The Utilities increased disbursements by \$875,000 (\$175,000 to carry Lyon and Sioux Rural Water System, Inc. debt until the end of calendar year 2013 and \$700,000 for April storm damage repair to electrical transmission line) and kept receipts the same.

Receipts came in \$34,725 under the amended budget. Use of money and property came in \$98,580 over budget, intergovernmental revenues came in \$399,518 over budget, charges for service came in \$539,356 under budget and miscellaneous receipts came in \$6,533 over budget. The breakdown of the charges for service by Utility is as follows: the Electric Fund receipts came in \$255,665 under budget, the Water Fund came in \$5,020 over budget, the Sewer Fund came in \$3,563 under budget and the Gas Fund came in \$285,148 under budget. Other financing sources came in \$17,150 over the amended budget. The Utilities budgets on the cash basis but maintains its records on an accrual basis; therefore, accurate cash basis budgeting is a challenge for the Utilities.

Disbursements came in \$867,922 under the amended budget. The Electric Fund came in \$684,062 under budget, the Water Fund came in \$95,533 over budget, the Sewer Fund came in \$2,426 under budget, the Gas Fund came in \$276,967 under budget and the Revolving Loan Fund came in at budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Please see Note (8) to the financial statements for more information about the Utilities' capital assets and related depreciation. The major additions during the fiscal year were for utility plant, a Chevy Colorado pickup and a new computer system. Utility plant additions were for Electric (line improvements, 69 KV line and major transmission line repairs), Water (well improvements, media filter, Greene Street expansion and the Hawkins Development), Sewer (haz mat project and two submersible pumps) and Gas (line improvements).

Construction in progress at June 30, 2013 consists primarily of an electric substation project, a Lewis & Clark Dove Avenue water line project and a sewer Scada system improvements project.

Long-Term Debt

The Utilities did not have any external long-term debt outstanding at June 30, 2013. Please see Note (3) for internal long-term loans made from the Gas Fund to the Water and Sewer Funds.

ECONOMIC FACTORS

The Electric Utility is expected to see an upward pressure on electric purchased costs while incurring a leveling of electric demand by its customers. Successful energy efficient programs have caused the use by our customers to level off. RRMU's supplemental provider plans on increasing its

rates in the coming year, and the threat of drought and low water levels on the Missouri River could cause WAPA to implement a drought adder.

The Water Utility implemented a water rate increase in fiscal year '12/'13 to fund system improvements and to acquire water source expansion. The extra source of water allowed increased sales to Lyon and Sioux Rural Water System, Inc., the Water Utility's largest customer. The Utilities is looking at additional opportunities that would require long-term debt financing in the coming year if the decision is made to move forward.

The Sewer Utility operations implemented a rate increase in fiscal year '12/'13 that was used to finance daily operations. The investment in infrastructure in the near future that will be supplemented by a FEMA grant may put pressure to raise the sewer rates once again.

The Gas Utility is expected to see base rates remain flat in the coming year. The Gas Utility will look for opportunities to spread its variable costs across additional sales.

The Revolving Loan Fund will collect payments on its outstanding loan until it has enough cash available to consider additional lending opportunities. The Utilities looks to expand this program in the coming year as it continues to foster economic development in its service territory.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and entities we have dealings with a general overview of the Utilities' finances and activities. If you have questions about this report or need additional financial information, contact Jim Hoyer, General Manager, 310 S. 3rd St., Rock Rapids, Iowa.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Basic Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 66,128	1,300,943	1,367,071
Certificates of Deposit	0	2,700,000	2,700,000
Accounts Receivable	0	282,654	282,654
Due From Other Governments (Related Party)	0	7,535	7,535
Due From Other Governments	0	291,153	291,153
Interest Receivable	0	14,023	14,023
Notes Receivable - Rock Rapids Development Corporation	0	6,000	6,000
Note Receivable - Rock Rapids Business	36,000	0	36,000
Notes Receivable - Housing Development Incentive Program	0	10,000	10,000
Note Receivable - Lyon & Sioux Rural Water System, Inc.	0	160,972	160,972
Inventory	0	166,193	166,193
Prepaid Expenses	0	74,981	74,981
Total Current Assets	<u>102,128</u>	<u>5,014,454</u>	<u>5,116,582</u>
Restricted Cash:			
Customer Deposits	0	55,209	55,209
Depreciation Reserves	0	13,518	13,518
Total Restricted Cash	<u>0</u>	<u>68,727</u>	<u>68,727</u>
Capital Assets:			
Land	0	179,087	179,087
Utility Plant	0	17,552,067	17,552,067
Transportation Equipment	0	318,723	318,723
Office Equipment	0	36,536	36,536
Tools and Safety Devices	0	233,226	233,226
Communication Equipment	0	6,949	6,949
Meter Testing Equipment	0	21,903	21,903
Intangibles	0	1,087,634	1,087,634
Total Capital Assets (Before W.I.P.)	0	19,436,125	19,436,125
Less: Accumulated Depreciation/Amortization	0	(9,717,514)	(9,717,514)
Capital Assets - Net (Before W.I.P.)	0	9,718,611	9,718,611
Construction Work in Progress	0	808,159	808,159
Net Capital Assets	<u>0</u>	<u>10,526,770</u>	<u>10,526,770</u>
Other Assets:			
Notes Receivable - Rock Rapids Development Corporation	0	197,553	197,553
Note Receivable - Rock Rapids Business	258,000	0	258,000
Note Receivable - Housing Development Incentive Program	0	75,000	75,000
Total Other Assets	<u>258,000</u>	<u>272,553</u>	<u>530,553</u>
Total Assets	<u>360,128</u>	<u>15,882,504</u>	<u>16,242,632</u>

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Liabilities			
Current Liabilities (Payable From Current Assets):			
Accounts Payable	0	57,533	57,533
Due to Other Governments (Related Party)	0	19,048	19,048
Due to Other Governments	0	16,757	16,757
Construction Contracts Payable	0	37,952	37,952
Accrued Vacation/Comp Time Pay	0	56,010	56,010
Flex Spending Plan Payable	0	1,212	1,212
Accrued Payroll & Payroll Liabilities	0	13,980	13,980
Unearned Income	0	38,520	38,520
Total Current Liabilities (Payable From Current Assets)	0	241,012	241,012
Liabilities Payable From Restricted Cash:			
Customer Deposits	0	55,209	55,209
Long -Term Liabilities:			
Accrued Sick Leave Pay	0	34,162	34,162
Total Liabilities	0	330,383	330,383
Net Position			
Net Investment in Capital Assets	0	10,526,770	10,526,770
Restricted for:			
Loans to Businesses	360,128	0	360,128
Depreciation Reserves	0	13,518	13,518
Unrestricted	0	5,011,833	5,011,833
Total Net Position	\$ 360,128	15,552,121	15,912,249

See Notes to Financial Statements.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Statement of Activities

For The Fiscal Year Ended June 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental Activities:						
Revolving Loans	\$ 0	0	128	\$ 128	0	128
Business Type Activities:						
Electric Utility	2,154,204	2,283,704	0	0	129,500	129,500
Water Utility	549,218	678,690	0	0	129,472	129,472
Sewer Utility	251,670	242,318	0	0	(9,352)	(9,352)
Gas Utility	984,979	1,003,412	0	0	18,433	18,433
Total Business Type Activities	3,940,071	4,208,124	0	0	268,053	268,053
Totals - R.R.M.U.	\$ 3,940,071	4,208,124	128	\$ 128	268,053	268,181
General Revenues:						
Gain on Disposal of Capital Assets				0	17,150	17,150
Rentals				0	1,880	1,880
Rentals (Related Party)				0	5,000	5,000
Customer Penalties/Credit Card Fees				0	2,721	2,721
Interest Income				0	37,436	37,436
Interest Income (Water, Sewer Funds)				0	55,752	55,752
Miscellaneous Income				0	53	53
Insurance Proceeds (Ice Storm)				0	3,356	3,356
Insurance Settlement				0	5,702	5,702
Construction Support Payment				0	3,176	3,176
Total General Revenues				0	132,226	132,226
Special Items:						
Energy Efficiency and Conservation Block Grant				0	15,509	15,509
Hazard Mitigation Grant Program				0	32,782	32,782
Free Community Service (Related Party)				0	(12,721)	(12,721)
Total Special Items				0	35,570	35,570
Extraordinary Item:						
FEMA Disaster Grant (Ice Storm)				0	275,100	275,100
Change in Net Position After Special Items and Extraordinary Item				128	710,949	711,077
Net Position Beginning of Year				360,000	14,841,172	15,201,172
Net Position End of Year				\$ 360,128	15,552,121	15,912,249

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Balance Sheet
Governmental Fund**

June 30, 2013

	<u>Special Revenue</u>
	<u>Revolving Loan Fund</u>
Assets	
Current Assets:	
Cash	\$ 66,128
Note Receivable - Rock Rapids Business	36,000
	<hr/>
Total Current Assets	102,128
Other Asset:	
Note Receivable - Rock Rapids Business	258,000
	<hr/>
Total Assets	<u><u>\$ 360,128</u></u>
Fund Balance:	
Restricted For:	
Loans to Businesses	\$ 360,128
	<hr/>
Total Fund Balance	<u><u>\$ 360,128</u></u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Revenues, Expenditures and Change in Fund Balance
Governmental Fund**

For the Fiscal Year Ended June 30, 2013

	<u>Special Revenue</u>
	<u>Revolving Loan Fund</u>
Revenues:	
Interest Income	\$ 128
Expenditures:	
None	<u>0</u>
Net Change in Fund Balance	128
Fund Balance Beginning of Year	<u>360,000</u>
Fund Balance End of Year	<u>\$ 360,128</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Net Position
Proprietary Funds**

June 30, 2013

	Enterprise Funds				Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	
Assets					
Current Assets:					
Cash	\$ 654,920	155,682	161,155	329,186	1,300,943
Certificates of Deposit	575,000	0	0	2,125,000	2,700,000
Accounts Receivable	138,278	59,583	20,009	64,784	282,654
Due From Other Utility Funds	5,472	60	36	275,431	280,999
Due From Other Governments (Related Party)	4,125	961	928	1,521	7,535
Due From Other Governments	288,397	726	692	1,338	291,153
Interest Receivable	2,294	3,509	0	8,220	14,023
Note Receivable - Rock Rapids Development Corporation	0	0	0	6,000	6,000
Note Receivable - Housing Development Incentive Program	10,000	0	0	0	10,000
Note Receivable - Lyon & Sioux Rural Water System, Inc.	0	160,972	0	0	160,972
Inventory	101,698	25,639	0	38,856	166,193
Prepaid Expenses	28,856	18,025	15,765	12,335	74,981
Total Current Assets	1,809,040	425,157	198,585	2,862,671	5,295,453
Restricted Cash:					
Customer Deposits	23,429	7,310	0	24,470	55,209
Depreciation Reserves	0	0	13,518	0	13,518
Total Restricted Cash	23,429	7,310	13,518	24,470	68,727
Capital Assets:					
Land	46,913	118,311	0	13,863	179,087
Utility Plant	9,121,544	5,074,551	2,265,053	1,090,919	17,552,067
Transportation Equipment	160,443	29,951	38,380	89,949	318,723
Office Equipment	22,969	3,594	1,797	8,176	36,536
Tools and Safety Devices	123,928	23,505	12,696	73,097	233,226
Communication Equipment	5,943	1,006	0	0	6,949
Meter Testing Equipment	16,235	5,668	0	0	21,903
Intangibles	11,990	1,060,299	3,355	11,990	1,087,634
Total Capital Assets (Before W.I.P.)	9,509,965	6,316,885	2,321,281	1,287,994	19,436,125

Less: Accumulated Depreciation/Amortization	(5,038,872)	(2,565,684)	(1,467,760)	(645,198)	(9,717,514)
Capital Assets – Net (Before W.I.P.)	4,471,093	3,751,201	853,521	642,796	9,718,611
Construction Work in Progress	447,240	303,495	57,424	0	808,159
Net Capital Assets	4,918,333	4,054,696	910,945	642,796	10,526,770

Other Assets:

Advances To Other Utility Funds	0	0	0	1,101,485	1,101,485
Note Receivable - Rock Rapids Development Corporation	0	0	0	197,553	197,553
Note Receivable - Housing Development Incentive Program	5,283	0	0	69,717	75,000
Total Other Assets	5,283	0	0	1,368,755	1,374,038

Total Assets	6,756,085	4,487,163	1,123,048	4,898,692	17,264,988
---------------------	------------------	------------------	------------------	------------------	-------------------

Liabilities

Current Liabilities (Payable From Current Assets):

Accounts Payable	18,132	38,701	7	693	57,533
Due To Other Utility Funds	197	261,233	19,469	100	280,999
Due To Other Governments (Related Party)	175	100	50	18,723	19,048
Due To Other Governments	13,645	1,841	273	998	16,757
Construction Contracts Payable	7,256	30,696	0	0	37,952
Accrued Vacation/Comp Time Pay	19,903	11,635	7,838	16,634	56,010
Flex Spending Plan Payable	1,212	0	0	0	1,212
Accrued Payroll & Payroll Liabilities	6,055	2,454	2,116	3,355	13,980
Unearned Income	0	0	0	38,520	38,520
Total Current Liabilities (Payable From Current Assets)	66,575	346,660	29,753	79,023	522,011

Liabilities Payable From Restricted Cash:

Customer Deposits	23,429	7,310	0	24,470	55,209
-------------------	--------	-------	---	--------	--------

Long -Term Liabilities:

Accrued Sick Leave Pay	12,382	5,638	5,493	10,649	34,162
Advances From Other Utility Fund	0	1,069,816	31,669	0	1,101,485
Total Long-Term Liabilities	12,382	1,075,454	37,162	10,649	1,135,647
Total Liabilities	102,386	1,429,424	66,915	114,142	1,712,867

Net Position

Net Investment in Capital Assets	4,918,333	2,917,302	862,331	642,796	9,340,762
Restricted for:					
Depreciation Reserves	0	0	13,518	0	13,518
Unrestricted	1,735,366	140,437	180,284	4,141,754	6,197,841
Total Net Position	\$ 6,653,699	3,057,739	1,056,133	4,784,550	15,552,121

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds**

For the Fiscal Year Ended June 30, 2013

	Enterprise Funds				Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	
Operating Revenues:					
Residential Sales	\$ 1,147,150	0	0	652,003	1,799,153
Commercial Sales	1,075,043	0	0	346,037	1,421,080
Public Street and Highway Lighting	16,193	0	0	0	16,193
Wind Power – Residential and Commercial	468	0	0	0	468
Water Sales – Metered	0	300,109	0	0	300,109
Water Sales – Rural Water System	0	351,384	0	0	351,384
Water Sales – Tank Loads	0	3,954	0	0	3,954
Sewer Service	0	0	241,138	0	241,138
Material and Service Sales	32,513	20,489	0	590	53,592
Service Income	8,205	393	0	650	9,248
Service Income (Related Party)	4,132	2,361	1,180	4,132	11,805
Total Operating Revenues	2,283,704	678,690	242,318	1,003,412	4,208,124
Operating Expenses:					
Production/Processing Expense	1,357,068	176,413	122,439	648,309	2,304,229
Distribution Expense	182,734	61,848	0	74,136	318,718
Accounting and Collecting	22,727	13,437	6,550	26,273	68,987
Administrative and General	168,121	101,473	56,447	150,745	476,786
Free Community Service (Related Party)	101,221	0	5,280	0	106,501
Free Community Service	26,256	5,566	0	15,032	46,854
Transportation	7,449	2,905	3,415	4,714	18,483
Depreciation	253,076	116,988	42,135	41,040	453,239
Payroll Taxes	35,327	17,579	12,661	24,436	90,003
Total Operating Expenses	2,153,979	496,209	248,927	984,685	3,883,800
Operating Income (Loss)	129,725	182,481	(6,609)	18,727	324,324

Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	17,150	0	0	17,150
Rentals	1,000	880	0	1,880
Rentals (Related Party)	5,000	0	0	5,000
Customer Penalties/Credit Card Fees	1,431	199	179	2,721
Interest Income	7,264	3,594	0	37,436
Interest Income (Water, Sewer Funds)	0	0	0	55,752
Miscellaneous Income	53	0	0	53
Insurance Proceeds (Ice Storm)	3,356	0	0	3,356
Insurance Settlement	0	5,702	0	5,702
Construction Support Payment	0	0	0	3,176
Interest Expense	(225)	0	0	(519)
Interest Expense (Gas Fund)	0	(53,009)	(2,743)	(55,752)
Net Nonoperating Revenues (Expenses)	35,029	(42,634)	(2,564)	75,955
Change in Net Position Before Special Items				
	164,754	139,847	(9,173)	400,279
Special Items:				
Energy Efficiency and Conservation Block Grant	15,509	0	0	15,509
Hazard Mitigation Grant Program	32,782	0	0	32,782
Free Community Service (Related Party)	(12,721)	0	0	(12,721)
Total Special Items	35,570	0	0	35,570
Extraordinary Item:				
FEMA Disaster Grant (Ice Storm)	275,100	0	0	275,100
Change in Net Position After Special Items and Extraordinary Item				
	475,424	139,847	(9,173)	710,949
Net Position Beginning of Year	6,178,275	2,917,892	1,065,306	14,841,172
Net Position End of Year	\$ 6,653,699	3,057,739	1,056,133	15,552,121

Exhibit G

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2013

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Gas Utility
				Total
Cash Flows From Operating Activities:				
Cash Received from Customers and Users	\$ 2,189,766	687,618	239,343	932,274
Cash Received from Interfund Services Provided	67,190	1,090	344	5,491
Cash Received from Other Revenues	9,356	6,582	0	3,176
Cash Paid to Suppliers/Outside Service Providers	(1,514,423)	(171,617)	(68,801)	(712,514)
Cash Paid for Personnel Services (Employees)	(302,971)	(151,508)	(103,378)	(218,845)
Cash Paid for Interfund Services Used	(6,055)	(35,295)	(31,565)	(1,200)
Cash Paid for Free Community Service (Related Party)	(113,942)	0	(5,280)	0
Cash Paid for Free Community Service	(11,822)	0	0	(33)
Net Cash Provided By (Used For)				
Operating Activities	317,099	336,870	30,663	8,349

Cash Flows From Capital and Related Financing Activities:				
Proceeds from Interfund Loan from the Gas Utility	0	175,000	0	0
Principal Payments on Interfund Loan from the Gas Utility	0	(64,702)	(16,157)	0
Interest Paid on Interfund Loan from the Gas Utility	0	(52,608)	(2,743)	0
Proceeds from Sale of Capital Assets	17,150	0	0	0
Purchases/Construction of Capital Assets	(578,522)	(350,285)	(28,457)	(21,511)
Special Item: Energy Efficiency & Conservation Block Grant Proceeds	20,802	0	0	0
Special Item: Hazard Mitigation Block Grant Program Proceeds	378,716	0	0	0
Net Cash Provided By (Used For) Capital and Related Financing Activities	(161,854)	(292,595)	(47,357)	(21,511)
				(523,317)

Cash Flows From Investing Activities:				
Issuance of Interfund Loan to the Water Utility	0	0	0	(175,000)
Principal Received on Interfund Loans	0	0	0	80,859
Interest Received on Interfund Loans	0	0	0	55,351
Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net)	300,000	0	0	(225,000)
Interest Received	8,861	85	0	24,683
Customer Penalties/Credit Card Fees Received	1,431	199	179	912
Loan Issued per the Housing Development Incentive Program	0	0	0	(55,000)
Loan Issued to the Lyon & Sioux Rural Water System, Inc.	0	(160,972)	0	0
Net Cash Provided By (Used For) Investing Activities	310,292	(160,688)	179	(293,195)
				(143,412)

Net Increase (Decrease) in Cash and Cash Equivalents	465,537	(116,413)	(16,515)	(306,357)
Cash and Cash Equivalents Beginning of Year	212,812	279,405	191,188	660,013
Cash and Cash Equivalents End of Year	\$ 678,349	162,992	174,673	353,656
				1,343,418

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Cash Flows
Proprietary Funds**

For the Fiscal Year Ended June 30, 2013

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Gas Utility
Cash Flows From Investing Activities:				
Issuance of Interfund Loan to the Water Utility	0	0	0	(175,000)
Principal Received on Interfund Loans	0	0	0	80,859
Interest Received on Interfund Loans	0	0	0	55,351
Cashied In (Purchase of) Non Cash Equivalent				
Certificates of Deposit (Net)	300,000	0	0	(225,000)
Interest Received	8,861	85	0	24,683
Customer Penalties/Credit Card Fees Received	1,431	199	179	912
Loan Issued per the Housing Development Incentive Program	0	0	0	(55,000)
Loan Issued to the Lyon & Sioux Rural Water System, Inc.	0	(160,972)	0	0
Net Cash Provided By (Used For) Investing Activities	310,292	(160,688)	179	(293,195)
				(143,412)
Net Increase (Decrease) in Cash and Cash Equivalents	465,537	(160,688)	179	(293,195)
				(143,412)
Cash and Cash Equivalents Beginning of Year	212,812	279,405	191,188	660,013
				1,343,418
Cash and Cash Equivalents End of Year	\$ 678,349	118,717	191,367	366,818
				1,200,006

Reconciliation of Operating Income (Loss) to Net Cash

Provided By (Used For) Operating Activities:

Operating Income (Loss)

Adjustments to Reconcile Operating Income

(Loss) to Net Cash Provided By (Used For)

Operating Activities:

Depreciation	253,076	116,988	42,135	41,040	453,239
Loans Forgiven - Housing Development Incentive Program	14,434	5,567	0	14,999	35,000
Special Item - Free Community Service (Related Party)	(12,721)	0	0	0	(12,721)
Proceeds from Rentals	1,000	880	0	0	1,880
Proceeds from Rentals (Related Party)	5,000	0	0	0	5,000
Proceeds from Insurance	3,356	5,702	0	0	9,058
Proceeds from Miscellaneous Income	53	0	0	0	53
Proceeds from Construction Support Payment	0	0	0	3,177	3,177
Deposit Interest Paid	(225)	0	0	(294)	(519)
Changes in Assets and Liabilities:					
Decrease (Increase) in Accounts Receivable	(7,428)	11,092	(1,925)	21,315	23,054
(Increase) in Due From Other Utility Funds	(5,472)	(60)	(36)	(147)	(5,715)
(Non Notes Receivable Related)					
Decrease (Increase) in Due From Other Governments	229	(359)	(422)	(434)	(986)
(Related Party)					

Exhibit G (Continued)

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2013

	Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Gas Utility
				Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities (Continued):				
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For)				
Operating Activities (Continued):				
Changes in Assets and Liabilities (Continued):				
(Increase) in Due From Other Governments (Non Grants Related)	(9,116)	(258)	(248)	(939)
Decrease in Flex Spending Receivable	3,628	0	0	0
Decrease (Increase) in Inventory	(28,542)	1,701	0	(313)
Decrease (Increase) in Prepaid Expenses	81	(1,432)	(1,942)	77
(Decrease) in Customer Deposits (Cash)	(5,034)	(395)	0	(7,255)
Increase (Decrease) in Accounts Payable	(22,992)	21,140	(2,718)	(308)
(Non Capital Assets Related)				
Increase in Due to Other Utility Funds	197	2,893	2,525	100
Increase (Decrease) in Due to Other Governments (Related Party)	17	(9,287)	5	25
Increase (Decrease) in Due to Other Governments (Non Capital Assets Related)	(1,571)	51	33	(464)
Increase (Decrease) in Accrued Vacation/Comp Time Pay	(1,505)	481	(228)	(1,395)
Increase in Flex Spending Payable	1,212	0	0	0
(Decrease) in Accrued Payroll & Payroll Liabilities	(568)	(431)	(23)	(1,583)
(Decrease) in Unearned Income	0	0	0	(78,196)
Increase in Accrued Sick Leave Pay	265	116	116	217
Net Cash Provided By (Used For) Operating Activities	\$ 316,870	337,229	31,085	8,783
				693,967

Reconciliation of Cash and Cash Equivalents at
Year End to Specific Assets Included on the

Statement of Net Assets:

Current Assets:				
Cash	\$ 654,920	155,682	161,155	329,186
Restricted Cash:				
Customer Deposits (Cash)	23,429	7,310	0	24,470
Depreciation Reserves (Cash)	0	0	13,518	0

Cash and Cash Equivalents at Year End

	\$ 678,349	162,992	174,673	353,656
				1,369,670

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids, which is a political subdivision of the State of Iowa located in Lyon County, Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The Rock Rapids Municipal Utilities provides electric, water, sewer, and gas utilities and related services to its customers. The Utilities has also established a Revolving Loan Fund to assist in the financing of approved rural economic development projects. The Rock Rapids Municipal Utilities is established and operated in accordance with Chapter 388 of the Code of Iowa. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under the criteria of the Code of Iowa.

The financial statements of the Rock Rapids Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board except that management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements.

The Rock Rapids Municipal Utilities operates a single-employer retiree benefit plan which provides medical/prescription drug benefits through a plan with United Healthcare (the plan was formerly with the Sanford Health Plan). Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and OPEB liability/expense. Accounting principles generally accepted in the United States of America require that this net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds. Required disclosures to be in conformity with accounting principles generally accepted in the United States of America that are omitted for this implicit rate subsidy include the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress, and actuarial methods and assumptions.

Management has also decided to omit the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Rock Rapids Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Rock Rapids Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

As previously noted, the Rock Rapids Municipal Utilities is a component unit of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. The City of Rock Rapids appoints the Utilities' governing body as already disclosed.

The Rock Rapids Municipal Utilities made contributions to the City of Rock Rapids in the amount of \$119,222 (reported as free community service – related party) for the fiscal year ended June 30, 2013. The Electric Fund contributed \$97,319 in checks, \$12,721 through the Retrofit Street Lighting Project (reported as a “special item”), \$3,902 through the residential demolition program and the Sewer Fund contributed \$5,280 in checks. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent (reported as “rentals-related party”) and \$11,805 for garbage/recycling billing and collection services (reported as service income-related party). The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other (these costs have not been presented separately in the financial statements).

Joint Ventures – The Utilities is a participant in joint ventures that provide goods and/or services to the Utilities. There is ongoing financial interest and responsibility by the Utilities and other participating members, which is reflected through the price each joint venture charges to provide the goods and/or services to the Utilities and other participating members. The Utilities has this ongoing financial interest and responsibility as a member of the Missouri River Energy Services and the Lewis & Clark Regional Water System, Inc. The Utilities paid the Missouri River Energy Services \$1,243,712 for electrical power and energy services, \$2,528 for dues, \$873 for inspections and \$225 for meeting registrations. The Utilities received \$39,599 from the Missouri River Energy Services as a reimbursement for monthly electrical capacity generation fees and generator costs and \$25,634 as a reimbursement for the “Bright Energy Solutions Program.” The Utilities purchased water from Lewis & Clark Regional Water System, Inc. in the amount of \$68,324 and paid \$5,810 for lobbying charges for fiscal year ended June 30, 2013. Financial information on each joint venture is not included with the Utilities' financial

statements. In order to obtain financial information and financial statements on each joint venture to determine whether each joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or burden on the Utilities, please contact the Utilities Manager at the Utilities office.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all activities of the Utilities. The effect of interfund activity has been removed from these statements, except for interfund service billings and interest charged for interfund loans. Governmental activities, which are supported by intergovernmental revenues and interest earnings, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization.

Restricted net assets result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function/program are offset by program revenues. Direct expenses are those clearly identifiable with a specific function/program. Program revenues can include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function/program. Unrestricted interest and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major governmental fund:

Special Revenue:

The Revolving Loan Fund is to be used to account for all funds derived from an "USDA-Rural Economic Development Grant" agreement between the Utilities and

Rural Development, through the Rural Business – Cooperative Service. This Revolving Loan Fund is to be used to assist in the financing, through the form of a loan, of approved rural economic development projects. The Revolving Loan Fund is meant to attract, retain and/or expand business that would generate public benefits to the citizens of Rock Rapids and the surrounding area.

The Utilities reports the following major proprietary funds (the Utilities considers all the proprietary funds to be major):

Enterprise:

The Electric Utility Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Water Utility Fund is used to account for the operation and maintenance of the Utilities' water system.

The Sewer Utility Fund is used to account for the operation and maintenance of the Utilities' sanitary sewer system.

The Gas Utility Fund is used to account for the operation and maintenance of the Utilities' gas system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Utilities considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Utilities.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due, as applicable. Proceeds of general long-term debt are reported as other financing sources, as applicable.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Utilities' policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of some grant agreements, the Utilities may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the qualifying programs. It is the Utilities' policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. The principal operating expenses for Enterprise Funds include the cost of sales and services (production/processing costs), distribution costs, administrative expenses, community service donations and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses, including rental income, customer penalties, insurance settlement, insurance proceeds, miscellaneous income, interest income, a construction support payment, gain (loss) on disposal of capital assets and interest expense.

The Utilities maintains its financial records on the accrual basis of accounting.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the financial statements:

Cash, Certificates of Deposit and Cash Equivalents – The cash balances of most of the Utilities funds are pooled and invested. Interest earned on investments is allocated to the appropriate fund. Investments on June 30, 2013 consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term investments that are highly liquid (including restricted cash) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2013 included all of the certificates of deposit.

Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Accounts receivable represents money owed to the Utilities, primarily for utility sales that were not paid to the Utilities as of June 30, 2013.

Due from and Due to Other Utility Funds/Advances to and Advances from Other Utility Funds – During the course of its operations, the Utilities has numerous transactions between utility funds and the Utilities Board of Trustees has also approved some

interfund loans between utility funds. To the extent certain transactions and the loans between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments (Related Party) – Due from other governments (related party) represents amounts due from the City of Rock Rapids for charges for sales and services provided.

Due from Other Governments – Due from other governments represents amounts due from other governments for charges for sales and services provided and for eligible costs that have been incurred for the FEMA Disaster Grant (ice storm damage).

Inventory – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed or sold rather than when purchased.

Prepaid Expenses – Prepaid expenses represents insurance premiums and other expense payments that will benefit a future fiscal year. Prepayments are recorded as expenses when utilized rather than when paid for.

Restricted Cash – Funds set aside for deposits held by the Utilities (customer deposits restricted for application to unpaid customer accounts or for refund to customers) and per Federal EPA requirements (depreciation reserves - provide cash for repair and replacement of equipment, including the eventual replacement of the entire wastewater treatment plant).

Capital Assets – Capital assets, which include property, utility system improvements, vehicles, equipment and intangibles are reported in the business type activities column in the government-wide Statement of Net Position and in the appropriate Enterprise Fund column in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets acquired prior to July 1, 2004 are defined by the Utilities as assets with initial, individual costs in excess of \$500 and estimated useful lives in excess of two years. Reportable capital assets acquired after June 30, 2004 are defined by the Utilities as assets with initial, individual costs in excess of the following thresholds and have estimated useful lives in excess of two years.

Accounts Payable and Construction Contracts Payable – Accounts Payable represents amounts owed for services performed or purchases made by June 30, 2013 but not paid as of June 30, 2013. Construction contracts payable represents amounts owed to contractors for work completed by June 30, 2013 on contracts, but the contractors have not been paid as of June 30, 2103.

Asset Class	Amount
Land, Utility Plant	\$10,000
Equipment, Tools and Safety Devices	\$ 5,000
Intangibles	\$20,000

Capital assets of the Utilities are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Utility Plant	5 – 50 years
Transportation Equipment	5 years
Office Equipment	5 – 10 years
Tools and Safety Devices	5 – 10 years
Communication Equipment	5 – 10 years
Meter Testing Equipment	5 – 7 years
Intangibles	5 – 50 years

Construction projects that have not been completed as of June 30, 2013 are reported as “Construction Work in Progress” on the balance sheet.

Due to Other Governments (Related Party)/Due to Other Governments – This represents state sales and use taxes, garbage and recycling collections, and payments for services and reimbursements that are due to be remitted to other governments and the City of Rock Rapids.

Accrued Vacation/Comp Time Pay – The Utilities’ personnel policy provides full-time employees with vacation pay and one employee with comp time pay in varying amounts. Vacation/comp time expenses for employees are charged to operations when earned by the employee in the Government-Wide and Proprietary Funds financial statements. At termination, an employee is paid for accumulated vacation/comp time. The amount recorded in the accounts for vacation/comp time pay aggregated to \$56,010 at June 30, 2013 (computed based on rates of pay in effect at June 30, 2013). This liability has been presented as a current liability in the financial statements as this liability is expected to be paid within a year.

Accrued Sick Leave Pay – The Utilities’ personnel policy provides full-time employees with sick leave in varying amounts. Sick leave pay expenses for non-vested employees are charged to operations when taken by the employee. Sick leave pay expenses for vested employees are charged to operations when earned by the employee in the Government-Wide and Proprietary Funds financial statements.

An employee who has been employed by the Utilities for over ten years, but less than fifteen years, and terminates employment due to retirement or death is entitled to 15% of unused accumulated allowable sick leave benefits. An employee who has been employed by the Utilities for over fifteen years and terminates employment for any reason, other than dismissal, is entitled to 15% of accumulated allowable sick leave. As of June 30, 2013, employees’ vested sick leave benefits aggregated \$34,162 (computed based on rates of pay in effect at June 30, 2013). Aggregated vested sick leave benefits (15% of accumulated allowable sick leave) are included in the accounts.

A summary of changes in accrued sick pay for fiscal year '12/'13 is as follows:

	Accrued Sick Leave Pay
Balance Beginning of Year	\$ 33,448
Increases	3,518
Decreases	(2,804)
Balance End of Year	<u>\$ 34,162</u>

This liability is recorded in the Government-Wide and Proprietary Fund financial statements as a long-term liability as this liability is not expected to be payable within a year.

Unearned Income – Amounts received on customer accounts before being billed are recorded in the “unearned income” account. Revenue is reported in the period in which it is realized or realizable and earned; therefore, when payments on accounts are received in advance of being earned, the amount applicable to future periods is deferred to future periods. The amount unearned is considered a liability because it represents an obligation to perform a service in the future arising from a past transaction.

Fund Equity – In the Governmental Fund financial statement, fund balance is classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Net Position: Restricted – In the Proprietary Fund financial statements, restricted net position is reported for amounts legally restricted by outside parties for use for a specific purpose. The amount of net position restricted at June 30, 2013 is computed as follows:

	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Total
Total Restricted Cash	\$ 23,429	7,310	13,518	24,470	68,727
Deposits Payable	(23,429)	(7,310)	0	(24,470)	(55,208)
Net Assets:					
Restricted (June 30, 2013)	\$ 0	0	13,518	0	13,518

The restricted net assets in the Sewer Utility Fund are for required depreciation reserves per Federal EPA requirements.

Net Position: Net Investment in Capital Assets – The “Net Investment in Capital Assets” is reported in the Government-Wide Statement of Net Position as \$10,526,770 and the “Net Investment in Capital Assets” in the Proprietary Funds Statement of Net Position as \$9,340,762. The \$1,186,008 difference is due to the removal of the capital related debt (debt attributable to the acquisition, construction or improvement of capital assets) owed

by the Sewer Utility to the Gas Utility and Water Utility to the Gas Utility. The effects of these interfund loans were removed from the Government-Wide Statement of Net Position as only external debt is reflected/affects the "Net Investment in Capital Assets".

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements during the fiscal year ended June 30, 2013 did not exceed the original budget before the amended budget was approved on the final amended budget amount for the Rock Rapids Municipal Utilities. The budgetary comparison is prepared by making memorandum adjusting entries to the accrual basis financial records to convert the records to the cash basis (the basis upon which the adopted budget is prepared).

(2) **Cash and Investments (Certificates of Deposit)**

The Utilities' deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No 3, as amended by Statement No. 40.

Board Designated Reserves – The Utilities Board has designated money to be set aside in Proprietary Funds as reserves for economic development, depreciation, and the Lewis & Clark Project. The money designated for these purposes is included in the unrestricted (current assets) cash balances as of June 30, 2013 as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves in Proprietary Funds on June 30, 2013 is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve	Total
Electric Utility Fund	\$ 12,482	\$ 100,224	\$ 0	\$ 112,706
Water Utility Fund	2,485	77,134	75,186	154,805
Gas Utility Fund	12,651	0	0	12,651
Total	\$ 27,618	\$ 177,358	\$ 75,186	\$ 280,162

(3) Due from and Due to Other Utility Funds/Advance to and Advance from Other Utility Funds

On January 27, 2006, the Gas Utility Fund loaned \$400,000 to the Water Utility Fund to assist with the payment of Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$35,409 and final maturity date is January 27, 2022. During the fiscal year ended June 30, 2013, the Water Utility Fund paid the Gas Utility Fund \$22,943 in principal and \$12,466 in interest on this loan. The June 30, 2013 balance on this loan was \$258,278.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 23,992	11,417	35,409
2015	25,052	10,357	35,409
2016	26,159	9,250	35,409
2017	27,294	8,115	35,409
2018	28,523	6,886	35,409
2019-2022	127,258	14,376	141,634
Total	\$ 258,278	60,401	318,679

On March 28, 2007, the Gas Utility Fund loaned an additional \$390,257 to the Water Utility Fund to assist with the payment of additional Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$34,548 and final maturity date is March 28, 2023. During the fiscal year ended June 30, 2013, the Water Utility Fund paid the Gas Utility Fund \$21,469 in principal and \$13,079 in interest on this loan. The June 30, 2013 balance on this loan was \$274,406.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 22,418	12,130	34,548
2015	23,409	11,139	34,548
2016	24,416	10,132	34,548
2017	25,523	9,025	34,548
2018	26,651	7,897	34,548
2019-2023	151,989	20,752	172,741
Total	\$ 274,406	71,075	345,481

On April 1, 2012, the Gas Utility Fund loaned an additional \$625,000 to the Water Utility Fund to assist with the payment of the gravity filter rehabilitation project costs. The loan carries a 4.33 annual percentage interest rate, annual payments are scheduled at \$47,353 and final maturity date is April 1, 2032. During the fiscal year ended June 30, 2013, the Water Utility Fund paid the Gas Utility Fund \$20,290 in principal and \$27,063 in interest on this loan. The June 30, 2013 balance on this loan was \$604,710.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 21,169	26,184	47,353
2015	22,085	25,268	47,353
2016	22,975	24,378	47,353
2017	24,037	23,316	47,353
2018	25,077	22,276	47,353
2019-2023	142,583	94,180	236,763
2024-2028	176,232	60,531	236,763
2029-2032	170,552	18,857	189,409
Total	\$ 604,710	294,990	899,700

On May 1, 2013, the Gas Utility Fund loaned \$175,000 to the Water Utility Fund to help in financing the Dove Avenue Project until Lyon and Sioux Rural Water System, Inc. pays for its share of this project. The loan carries a 4.42 annual percentage interest rate and the entire principal and interest is due to be repaid by December 31, 2013. No payment was made of this loan during the fiscal year ended June 30, 2013. The June 30, 2013 balance on this loan was \$175,000.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 175,000	5,171	180,171

On March 27, 2006, the Gas Utility Fund loaned \$150,000 to the Sewer Utility Fund for utility plant capital asset costs. The loan carries a 4.7754 annual percentage interest rate, monthly payments are scheduled at \$1,575 and final maturity date is March 27, 2016. During the fiscal year ended June 30, 2013, the Sewer Utility Fund paid the Gas Utility Fund \$16,157 in principal and \$2,743 in interest on this loan. The June 30, 2013 balance on this loan was \$48,614.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	16,946	1,954	18,900
2015	17,773	1,127	18,900
2016	13,895	280	14,175
Total	\$ 48,614	3,361	51,975

The balances in the “Due From and Due to Other Utility Funds” and “Advance To and Advance From Other Utility Funds” are for the aforementioned loans between funds, accrued interest on these loans and amounts owed for utility services provided as follows:

Assets	Receivable Utility			
	Electric	Water	Sewer	Gas
Due From/For:				
Loan (Current Portion)	\$ 0	0	0	259,523
Accrued Interest on Loans	0	0	0	15,761
Utility Services Provided	5,472	60	36	147
Total Due From/To	5,472	60	36	275,431
Advances To:				
Loan (Noncurrent Portion)	0	0	0	1,101,485
Totals	\$ 5,472	60	36	1,376,916

Liabilities	Payable Utility			
	Electric	Water	Sewer	Gas
Due To/For:				
Loan (Current Portion)	\$ 0	(242,579)	(16,944)	0
Accrued Interest on Loans	0	(15,761)	0	0
Utility Services Provided	(197)	(2,893)	(2,525)	(100)
Total Due From/To	(197)	(261,233)	(19,469)	(100)
Advances From:				
Loan (Noncurrent Portion)	0	(1,069,816)	(31,669)	0
Totals	\$ (197)	(1,331,049)	(51,138)	(100)

(4) Notes Receivable – Rock Rapids Development Corporation

On September 28, 2009, the Rock Rapids Municipal Utilities loaned \$140,000 from the Gas Fund to the Rock Rapids Development Corporation to be used toward the purchase of approximately 28 acres of real estate in Rock Rapids, Iowa for development purposes. This promissory draw note loan earns interest at a rate of 2.5% per annum (accrued interest is to be paid annually with interest computed through December 31st of each year) and is secured by a real estate mortgage on the 28 acres of real estate purchased through the aforementioned loan funds.

The Rock Rapids Development Corporation is to pay all principal and unpaid interest due per this promissory draw note no later than thirty days after written demand for such payment by the Rock Rapids Municipal Utilities, provided, however, that the entire amount of loan outstanding and any unpaid interest shall be paid no later than twenty years after September 28, 2010, and provided further, however, that upon the sale of any part or all of the 28 acres, the Rock Rapids Development Corporation shall repay that percentage of such net sale proceeds from the sale which are equivalent to the percentage of acres sold from the original 28 acres purchased from the proceeds of this loan. If the Rock Rapids Development Corporation sells all 28 acres, the Rock Rapids Development Corporation shall repay the Rock Rapids Municipal Utilities all unpaid principal and interest no later than 30 days after final closing on such sale.

On June 29, 2011, the Rock Rapids Municipal Utilities loaned \$75,000 from the Gas Fund to the Rock Rapids Development Corporation to be used toward the purchase of a 5 acre parcel of real estate. This promissory draw note loan earns interest at a rate of 3.1% per annum (accrued interest is to be paid annually with interest computed through June 30th of each year) and is secured by a real estate mortgage on the 5 acre parcel of real estate noted above.

This promissory note shall be for a period of ten years with interest only payable annually. The Rock Rapids Development Corporation shall have the right to make additional principal payments at any time. However, upon the sale, gift, or transfer in any way of any part of all of the five acres, the Rock Rapids Development Corporation shall be required to pay to the Rock Rapids Municipal Utilities \$15,000 per acre transferred. The Rock Rapids Development Corporation shall pay this amount to the Rock Rapids Municipal Utilities no later than 30 days after any transfer of real estate.

In July 2011, the Rock Rapids Development Corporation sold approximately 1.717 acres of the 5 acres parcel of real estate. Based on an amendment to the agreement between the Utilities and the Rock Rapids Development Corporation, the Utilities allowed the \$25,751 in proceeds from the land sold to be paid in installments and the Rock Rapids Development Corporation agreed to continue paying 3.1 percent on any outstanding loan balance. During fiscal year '11/'12, the Utilities received \$11,447 in principal on this note. During the fiscal year ended June 30, 2013, the Utilities did not receive any principal payments. The remaining note receivable balance of \$14,304 that is due, along with interest, is to be repaid as follows: \$6,000 is due in July 2013, \$6,000 by July 1, 2014 and \$2,304 by July 1, 2015.

During fiscal year ended June 30, 2013, the \$140,000 note receivable generated \$3,500 in interest income for the Gas Utility Fund and the original \$75,000 note receivable generated \$1,970 in interest income for the Gas Utility Fund. On June 30, 2013, the balance on the notes receivable from the Rock Rapids Development Corporation totaled \$203,553 (\$140,000 and \$63,553, respectively) with \$6,000 being reported as a "Current Asset" and \$197,553 being reported as an "Other Asset" in the Gas Utility Fund.

(5) Notes Receivable – Rock Rapids Businesses

In July 2011, the Utilities complied with all the requirements under the Rural Economic Development Grant Agreement Program in order to be awarded a grant in the amount of \$300,000 to assist in the establishing of a Revolving Loan Fund.

The Utilities loaned from the Revolving Loan Fund \$360,000 to the Rock Rapids Community Affairs Corporation ("CAC") at a 0% interest rate. In August 2011, the CAC sold the commercial spec building to a businessman and subsequently assigned the contract and the collateral of the real estate to the Utilities. Payment on the note is based on a 0% interest rate (as awarded by the Revolving Loan Fund Program) with \$3,000/month in principal due until the loan is paid in full.

During fiscal year 2012/2013, the Utilities received 36,000 in principal payments. As of June 30, 2013, the outstanding note receivable balance was \$294,000. The amount due in fiscal year 2013/2014 of \$36,000 is being reported as a "Current Asset" and the remaining amount of \$258,000 is being reported as an "Other Asset" in the Revolving Loan Fund.

(6) Note Receivable –Housing Development Incentive Program

In April 2012, the Rock Rapids Municipal Utilities Board of Trustees approved the establishment of a "Housing Development Incentive Program." This program provides for forgivable loans in the amount of \$5,000 per platted residential lot with the program available to developers of a minimum of six lots with infrastructure (including street, storm sewer, water main, etc.). The terms of the forgivable loans are that interest is to be paid annually at the established interest rate, the Utilities will receive a second mortgage to the developer's primary lender and, if there is a balance due after 15 years from the date of the loan, the remaining balance and any accrued interest will become due immediately. The loans will be forgiven in the amount of \$5,000 per lot when a lot is sold, the deed to the purchaser is recorded and accrued interest is paid up to the date of the recording of the deed. When 75% of the approved lots are sold and deeds are filed/recorded, accrued interest becomes due and once paid, the remaining loan balance will be forgiven.

In May 2012, the Utilities loaned a company \$65,000 and in December 2012, the Utilities loaned an entity \$55,000 as forgivable loans under this program for the development of a subdivision with 13 residential lots and another subdivision with 11 residential lots. Each loan carries a 4% interest rate with interest due annually. These loans may be forgiven in whole or in part if the requirements of the program are satisfied. Any remaining balance of the notes receivable will be due 15 years from the date of the promissory note. During the fiscal year ended June 30, 2013, \$35,000 of the notes receivable balance was forgiven by the Utilities and these notes generated \$3,165 in interest income for the Utilities. As of June 30, 2013, \$10,000 of these notes receivable are reported as a "Current Asset" and the remaining \$75,000 is reported as an "Other Assets". As of June 30, 2013, \$15,283 of the notes receivable balance is reported in the Electric Utility and \$69,717 is reported in the Gas Utility (\$85,000 in total).

(7) Note Receivable – Lyon & Sioux Rural Water System, Inc.

In December 2012, the Rock Rapids Municipal Utilities and the Lyon & Sioux Rural Water System, Inc. agreed to a joint project concerning the construction of approximately 3 miles of water pipeline referred to as the "Dove Avenue Line" located north of the city of Lester, Iowa. Per the joint project agreement, the Utilities is responsible for paying all the project costs with Rural Water agreeing to reimburse the Utilities for 49% of the actual costs of the project.

Rural Water's 49% share of the project amounted to \$310,972. Rural Water reimbursed the Utilities for \$150,000 in project costs in December 2012. The remaining \$160,972 owed by Rural Water is reported as a "Current Asset" in the Water Utility Fund, carries an interest rate of 4.42% per annum starting on January 1, 2013 and the entire balance matures by no later than December 31, 2013.

(8) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type Activities:				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 179,087	0	0	179,087
Construction Work in Progress	1,670,780	855,506	(1,718,127)	808,159
Total Capital Assets Not Being Depreciated/Amortized	1,849,867	855,506	(1,718,127)	987,246
Capital Assets Being Depreciated/Amortized:				
Utility Plant	15,782,510	1,770,753	(1,196)	17,552,067
Transportation Equipment	347,436	25,672	(54,385)	318,723
Office Equipment	39,782	10,670	(13,916)	36,536
Tools and Safety Devices	271,916	0	(38,690)	233,226
Communication Equipment	8,077	0	(1,128)	6,949
Meter Testing Equipment	21,903	0	0	21,903
Intangibles	1,087,634	0	0	1,087,634
Total Capital Assets Being Depreciated/Amortized	17,559,258	1,807,095	(109,315)	19,257,038
Less Accumulated Depreciation/Amortization For:				
Utility Plant	8,800,749	387,615	(1,196)	9,187,168
Transportation Equipment	241,672	25,547	(54,385)	212,834
Office Equipment	30,747	3,058	(13,916)	19,889
Tools and Safety Devices	238,749	9,138	(38,690)	209,197
Communication Equipment	8,079	0	(1,128)	6,951
Meter Testing Equipment	21,903	0	0	21,903
Intangibles	31,691	27,881	0	59,572
Total Accumulated Depreciation/Amortization	9,373,590	453,239	(109,315)	9,717,514
Total Capital Assets Being Depreciated/Amortized, Net	8,185,668	1,353,856	0	9,539,524
Business Type Activities Capital Assets, Net	\$10,035,535	2,209,362	(1,718,127)	10,526,770

Depreciation/amortization expense was charged to the different Utilities as follows:

Business Type Activities:

Electric Utility	\$ 253,076
Water Utility	116,988
Sewer Utility	42,135
Gas Utility	41,040
Total Depreciation/Amortization Expense – Business Type Activities	<u>\$ 453,239</u>

Intangible (Lewis & Clark Project Membership); Utility Plant (Lewis & Clark Project Services Lines)

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with the Lewis and Clark Regional Water System, Inc. to become a member in Lewis & Clark Regional Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Regional Water System, Inc. In the amended and restated commitment agreement, the Utilities agreed to pay the Utilities' allocated construction percentage of the base system costs (examples: administrative, overhead, engineering, financing, debt service, legal costs and fees), related membership/lobbying fees and to directly pay for design and construction of service lines plus any other member specific costs.

In October 2011, the Utilities began to receive water through the Lewis and Clark system as the construction of the distribution system was substantially done and water was available through the system. At that time, the Utilities reclassified the membership costs from an "Other Asset" to a "Capital Asset" by capitalizing an "intangible asset" of \$1,053,589, which represents the total amount paid toward the cost of membership, which includes base system costs and related membership/lobbying fees. The "intangible asset" is being amortized over 50 years which represents the length of time the distribution system is guaranteed to be available to its members.

If the Rock Rapids Municipal Utilities would withdraw from membership in Lewis & Clark Regional Water System, Inc., the Utilities would forfeit all amounts paid to Lewis & Clark Regional Water System, Inc., whether in the form of membership fees, construction payments or amounts placed or on deposit in the "Maintenance and Repair Fund," the "Capital Improvement Fund" or the "Operating Reserve Fund."

The Rock Rapids Municipal Utilities agrees to purchase a minimum of 137,500 gallons of potable, treated water per day, on average, each month at the water rates and charges set by Lewis & Clark Regional Water System, Inc.

(9) Due to Other Governments/Due to Other Governments – Related Party

The Utilities purchases services from other governmental units, pays required fees to regulatory entities, remits sales and use tax to the State of Iowa, reimburses the City of Rock Rapids for expenses/project costs, and remits garbage and recycling collections to the City of Rock Rapids.

A summary of amounts due to other governments follows:

Fund	Description	Amount
Electric Utility	State Sales and Use Tax	\$ 13,645
Water Utility	State Sales and Use Tax	1,841
Sewer Utility	State Sales and Use Tax	273
Gas Utility	State Sales and Use Tax	998
Total		<u>\$ 16,757</u>

A summary of amounts due to other governments–related party (City of Rock Rapids) follows:

Fund	Description	Amount
Electric Utility	Legal Fees Reimbursement	\$ 175
Water Utility	Legal Fees Reimbursement	100
Sewer Utility	Legal Fees Reimbursement	50
Gas Utility	Garbage/Recycling Collections and Legal Fees Reimbursement	18,723
Total		<u>\$ 19,048</u>

(10) EECB and Hazard Mitigation Grants/ Free Community Service (Related Party) – “Special Items”; FEMA Disaster Grant (Ice Storm) – “Extraordinary Item”

The Utilities and the City of Rock Rapids were approved for an Energy Efficiency and Conservation Block (EECB) Grant from the U.S. Department of Energy (passed through the Iowa offices of Energy Independence) for the purpose of replacing street lighting in Rock Rapids (Retrofit Street Lighting Project). For the year ended June 30, 2013, the Utilities reported \$15,509 in EECB Grant income. The EECB Grant award was finalized in fiscal year 2012/2013.

The Utilities is reporting the \$12,721 in costs incurred for the Retrofit Street Lighting Project as “Free Community Service (Related Party)” under the premise that replacing of the street lighting is a benefit to the City of Rock Rapids.

The Rock Rapids Municipal Utilities was awarded a Hazard Mitigation Grant from the U.S. Department of Homeland Security (passed through the Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division). The grant is to help offset up to 85% of the costs incurred by the Utilities for the 69 KV Line improvement project. For the

fiscal year ended June 30, 2013, the Utilities reported \$32,782 in Hazard Mitigation Grant income. This grant was finalized during fiscal year 2012/2013.

The Rock Rapids Municipal Utilities was the recipient of \$275,100 in FEMA Disaster Grant (Federal share) funding as the result of an April 2013 ice storm that did major damage to the Utilities 69 KV transmission lines. This grant was used for emergency repairs related to the 69 KV transmission lines.

(11) Major Customer

Lyon and Sioux Rural Water System, Inc. is a major customer of the Water Utility. Water sales to Lyon and Sioux Rural Water System, Inc., amounted to \$351,384 or 51.8% of the total operating water revenues for the fiscal year ended June 30, 2013.

(12) Pension and Retirement Benefits

The Rock Rapids Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the Municipal Utilities is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$47,770, \$43,859 and \$38,410, respectively, equal to the required contributions for each year.

(13) Risk Management

The Rock Rapids Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utilities did decrease the limit per occurrence on the following coverage from \$250,000 to \$200,000 during the fiscal year ended June 30, 2013: employee theft- blanket (per loss), computer fraud and funds transfer fraud.

(14) Employee Health Insurance Coverage

The Rock Rapids Municipal Utilities provided group health insurance coverage for eligible employees throughout the fiscal year ended June 30, 2013. Sanford Health provided coverage up to December 31, 2012. As of January 1, 2013, the Utilities switched their group health

insurance provider to United Healthcare. Under the new United Healthcare plan, the deductible for family coverage is \$6,000, while the deductible for individual coverage is \$2,000. The Utilities agreed to pay the remaining amount of the deductible after the employee pays the first \$500 in deductible for single plans and the first \$1,000 of the deductible for family coverage.

(15) Commitments

In September 2011, the Utilities entered into a contract for \$164,356 (\$121,221 plus \$43,135 in change orders) for electric substation improvements. As of June 30, 2013, costs of \$145,107 have been incurred by the Electric Utility Fund on this contract. The balance of \$19,249 remaining on the contract at June 30, 2013 will be paid as work on the project is completed.

In June 2013, the Utilities entered into a contract for \$110,938 for replacement of emissions retrofit catalyst housing for EMD 20 cylinder generator. As of June 30, 2013 no cost had been incurred for the Electric Utility Fund on this contract (see Subsequent Events note).

The Utilities has been approved for a \$300,000 USDA Rural Utility Services Grant. The Utilities has committed a \$60,000 match from the Gas Utility Fund when the grant is completely processed and received. The grant and match will be used to start another revolving loan program.

(16) Subsequent Events

In July 2013, the Utilities approved a loan from the Revolving Loan Fund to a non-profit entity to assist with building a new daycare center. The approved loan is for \$525,000 and carries a 3% interest rate.

In July 2013, the Utilities approved a contract for a water storage tank painting project for \$422,200 to be paid from the Water Fund. A contract change order, resulting in an increase of \$50,100, was approved in September 2013 (bringing the amended contract price to \$472,300.) No payments have been made for work on this project as of the audit report date.

In July 2013, the Utilities approved a contract for a new office building roof for \$64,530. No payments have been made for work on this project as of the audit report date.

In October 2013, the Utilities approved a 20 year loan of \$450,000 from the Gas Fund to the Water Fund. The loan carries an interest rate of 4.33% and matures on January 1, 2033.

In October 2013, Lyon & Sioux Rural Water System, Inc. paid off their note with the Utilities (\$160,972 in principal and \$5,925 in interest).

In December 2013, the Utilities paid \$143,324 from the Electric Fund for total payment on the contract for replacement of emissions retrofit catalyst housing for EMD 20 cylinder generator (see Commitments above). Due to contract adjustments, the final total came in \$32,386 higher than the original contract.

In December 2013, the Utilities approved payment of \$175,000 plus interest from the Water Fund to the Gas Fund for repayment in full of the outstanding Dove Line Project note.

(17) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Required Supplementary Information

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

**Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) -
Governmental Fund and Proprietary Funds**

Required Supplementary Information

For the Fiscal Year Ended June 30, 2013

	Governmental Fund Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Receipts:						
Use of Money and Property	\$ 128	98,452	98,580	0	0	98,580
Intergovernmental	0	399,518	399,518	0	0	399,518
Charges for Service:						
Electric Utility	0	2,257,085	2,257,085	2,512,750	2,512,750	(255,665)
Water Utility	0	694,410	694,410	689,390	689,390	5,020
Sewer Utility	0	239,687	239,687	243,250	243,250	(3,563)
Gas Utility	0	937,765	937,765	1,222,913	1,222,913	(285,148)
Miscellaneous	36,000	6,533	42,533	36,000	36,000	6,533
Total Receipts	36,128	4,633,450	4,669,578	4,704,303	4,704,303	(34,725)
Disbursements:						
Business Type Activities:						
Revolving Loans to Businesses	0	0	0	0	0	0
Electric Utility	0	2,527,735	2,527,735	2,511,797	3,211,797	684,062
Water Utility	0	922,286	922,286	651,753	826,753	(95,533)
Sewer Utility	0	240,224	240,224	242,650	242,650	2,426
Gas Utility	0	1,009,103	1,009,103	1,286,070	1,286,070	276,967
Total Disbursements (Business Type Activities)	0	4,699,348	4,699,348	4,692,270	5,567,270	867,922
Excess (Deficiency) of Receipts Over (Under) Disbursements	36,128	(65,898)	(29,770)	12,033	(862,967)	833,197
Other Financing Sources	0	17,150	17,150	0	0	17,150
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements	36,128	(48,748)	(12,620)	12,033	(862,967)	850,347
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year	30,000	4,118,418	4,148,418	5,364,412	5,462,016	(1,313,598)
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	\$ 66,128	4,069,670	4,135,798	5,376,445	4,599,049	(463,251)

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

For the Fiscal Year Ended June 30, 2013

	Governmental Fund			Proprietary Funds		
	Special Revenue			Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts/Revenues/Special Items/Extraordinary Items	\$ 36,128	(36,000)	128	4,633,450	30,291	4,663,741
Disbursements/Expenses/Special Items	0	0	0	4,699,348	(746,556)	3,952,792
Net	36,128	(36,000)	128	(65,898)	776,847	710,949
Other Financing Sources	0	0	0	17,150	(17,150)	0
Beginning Fund Balances/Net Position	30,000	330,000	360,000	4,118,418	10,722,754	14,841,172
Ending Fund Balances/Net Position	\$ 66,128	294,000	360,128	4,069,670	11,482,451	15,552,121

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Notes to Required Supplementary Information – Budgetary Reporting

For the Fiscal Year Ended June 30, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the major Special Revenue Fund and each major Proprietary (Enterprise) Fund.

In accordance with the Code of Iowa, the Utilities Board of Trustees annually approves a budget on the cash basis of accounting. The Utilities Board of Trustees submits the approved budget to the Rock Rapids City Council. The cash basis budget is adopted by the Rock Rapids City Council following required public notice and hearing for all funds. The budget is included in the City of Rock Rapids budget. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances and accruals are not recognized on the cash basis budget and appropriations lapse at year end.

The Utilities budgeted all its receipts under the “charges for service” and “miscellaneous” classifications. Actual receipts primarily came from the “charges for service” classification; however, the Utilities did also have some receipts come from the “use of money and property,” “intergovernmental” and “miscellaneous” receipts classifications. Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Utilities – Special Revenue Fund and the Enterprise Funds. All Utility disbursements are included in the “business type/enterprises activities” function classification on the City’s adopted budget. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, one budget amendment did not change the amount of budgeted receipts; however, budgeted disbursements were increased by \$875,000 (\$700,000 for the Electric Fund and \$175,000 for the Water Fund) for the Rock Rapids Municipal Utilities. This budget amendment is reflected in the final budgeted amounts.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Supplementary Information

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2012		
Assets				
Current Assets:				
Cash	\$ 654,920	184,349	470,571	255%
Certificates of Deposit	575,000	875,000	(300,000)	(34%)
Accounts Receivable	138,278	130,850	7,428	6%
Due From Other Utility Funds	5,472	0	5,472	N/A
Due From Other Governments (Related Party)	4,125	4,354	(229)	(5%)
Due From Other Governments	288,397	355,408	(67,011)	(19%)
Interest Receivable	2,294	3,891	(1,597)	(41%)
Note Receivable - Housing Development Incentive Program	10,000	0	10,000	N/A
Flex Spending Receivable	0	3,628	(3,628)	(100%)
Inventory	101,698	73,156	28,542	39%
Prepaid Expenses	28,856	28,937	(81)	(0%)
Total Current Assets	1,809,040	1,659,573	149,467	9%
Restricted Cash:				
Customer Deposits	23,429	28,463	(5,034)	(18%)
Capital Assets:				
Land	46,913	46,913	0	0%
Utility Plant	9,121,544	8,157,889	963,655	12%
Transportation Equipment	160,443	178,105	(17,662)	(10%)
Office Equipment	22,969	24,958	(1,989)	(8%)
Tools and Safety Devices	123,928	126,252	(2,324)	(2%)
Communication Equipment	5,943	7,071	(1,128)	(16%)
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	9,509,965	8,569,413	940,552	11%
Less: Accumulated Depreciation/Amortization	(5,038,872)	(4,838,305)	(200,567)	4%
Capital Assets - Net (Before W.I.P)	4,471,093	3,731,108	739,985	20%
Construction Work in Progress	447,240	885,161	(437,921)	(49%)
Net Capital Assets	4,918,333	4,616,269	302,064	7%
Other Assets:				
Note Receivable - Housing Development Incentive Program	5,283	29,717	(24,434)	(82%)
Total Assets	6,756,085	6,334,022	422,063	7%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2012		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	18,132	49,501	(31,369)	(63%)
Due To Other Utility Funds	197	0	197	N/A
Due To Other Governments (Related Party)	175	158	17	11%
Due To Other Governments	13,645	8,802	4,843	55%
Construction Contracts Payable	7,256	28,675	(21,419)	(75%)
Accrued Vacation/Comp Time Pay	19,903	21,408	(1,505)	(7%)
Flex Spending Plan Payable	1,212	0	1,212	N/A
Accrued Payroll & Payroll Liabilities	6,055	6,623	(568)	(9%)
Total Current Liabilities (Payable From Current Assets)	66,575	115,167	(48,592)	(42%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	23,429	28,463	(5,034)	(18%)
Long-Term Liability:				
Accrued Sick Leave Pay	12,382	12,117	265	2%
Total Liabilities	102,386	155,747	(53,361)	(34%)
Net Position				
Net Investment in Capital Assets	4,918,333	4,616,269	302,064	7%
Unrestricted	1,735,366	1,562,006	173,360	11%
Total Net Position	\$ 6,653,699	6,178,275	475,424	8%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2011		
Assets				
Current Assets:				
Cash	\$ 654,920	518,856	136,064	26%
Certificates of Deposit	575,000	1,030,000	(455,000)	(44%)
Accounts Receivable	138,278	122,775	15,503	13%
Due From Other Utility Funds	5,472	0	5,472	N/A
Due From Other Governments (Related Party)	4,125	4,978	(853)	(17%)
Due From Other Governments	288,397	6,623	281,774	4254%
Interest Receivable	2,294	5,782	(3,488)	(60%)
Note Receivable - Housing Development				
Incentive Program	10,000	0	10,000	N/A
Inventory	101,698	48,311	53,387	111%
Prepaid Expenses	28,856	25,119	3,737	15%
Total Current Assets	1,809,040	1,762,444	46,596	3%
Restricted Cash:				
Customer Deposits	23,429	22,357	1,072	5%
Capital Assets:				
Land	46,913	46,913	0	0%
Utility Plant	9,121,544	8,025,757	1,095,787	14%
Transportation Equipment	160,443	111,468	48,975	44%
Office Equipment	22,969	24,958	(1,989)	(8%)
Tools and Safety Devices	123,928	129,052	(5,124)	(4%)
Communication Equipment	5,943	7,071	(1,128)	(16%)
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.L.P)	9,509,965	8,373,444	1,136,521	14%
Less: Accumulated Depreciation/Amortization	(5,038,872)	(4,609,364)	(429,508)	9%
Capital Assets - Net (Before W.L.P)	4,471,093	3,764,080	707,013	19%
Construction Work in Progress	447,240	422,290	24,950	6%
Net Capital Assets	4,918,333	4,186,370	731,963	17%
Other Assets:				
Note Receivable - Housing Development				
Incentive Program	5,283	0	5,283	N/A
Total Assets	6,756,085	5,971,171	784,914	13%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Position

	<u>June 30,</u>		<u>Amount of Change</u>	<u>Percentage of Change</u>
	<u>2013</u>	<u>2011</u>		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	18,132	18,015	117	1%
Due To Utility Fund	197	0	197	N/A
Due To Other Governments (Related Party)	175	166	9	5%
Due To Other Governments	13,645	6,842	6,803	99%
Construction Contracts Payable	7,256	50,794	(43,538)	(86%)
Accrued Vacation/Comp Time Pay	19,903	19,043	860	5%
Flex Spending Plan Payable	1,212	1,203	9	1%
Accrued Payroll & Payroll Liabilities	6,055	5,933	122	2%
Total Current Liabilities	66,575	101,996	(35,421)	(35%)
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	23,429	22,357	1,072	5%
Long-Term Liability:				
Accrued Sick Leave Pay	12,382	11,938	444	4%
Total Liabilities	102,386	136,291	(33,905)	(25%)
Net Position				
Net Investment in Capital Assets	4,918,333	4,186,370	731,963	17%
Unrestricted	1,735,366	1,647,980	87,386	5%
Total Net Position	\$ 6,653,699	5,834,350	819,349	14%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2012		
Operating Revenues:				
Residential Sales	\$ 1,147,150	1,033,567	113,583	11%
Commercial Sales	1,075,043	963,114	111,929	12%
Public Street and Highway Lighting	16,193	29,035	(12,842)	(44%)
Wind Power – Residential and Commercial	468	486	(18)	(4%)
Material and Service Sales	32,513	31,348	1,165	4%
Service Income	8,205	3,528	4,677	133%
Service Income (Related Party)	4,132	4,132	0	0%
Total Operating Revenues	2,283,704	2,065,210	218,494	11%
Operating Expenses:				
Production/Processing Expense	1,357,068	1,282,513	74,555	6%
Distribution Expense	182,734	180,293	2,441	1%
Accounting and Collecting	22,727	24,928	(2,201)	(9%)
Administrative and General	168,121	179,079	(10,958)	(6%)
Free Community Service (Related Party)	101,221	100,768	453	0%
Free Community Service	26,256	8,301	17,955	216%
Transportation	7,449	5,428	2,021	37%
Depreciation	253,076	231,741	21,335	9%
Payroll Taxes	35,327	31,548	3,779	12%
Total Operating Expenses	2,153,979	2,044,599	109,380	5%
Operating Income	129,725	20,611	109,114	529%
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	17,150	250	16,900	6760%
Rentals	1,000	1,000	0	0%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,431	1,168	263	23%
Miscellaneous Income	53	281	(228)	(81%)
Interest Income	7,264	13,608	(6,344)	(47%)
Insurance Proceeds (Ice Storm)	3,356	0	3,356	N/A
Interest Expense	(225)	(213)	(12)	6%
Net Nonoperating Revenues (Expenses)	35,029	21,094	13,935	66%
Change in Net Position Before Special Items and Extraordinary Item	164,754	41,705	123,049	295%
Special Items:				
Energy Efficiency and Conservation				
Block Grant	15,509	65,219	(49,710)	(76%)
Hazard Mitigation Grant Program	32,782	380,720	(347,938)	(91%)
Free Community Service (Related Party)	(12,721)	(143,719)	130,998	(91%)
Total Special Items	35,570	302,220	(266,650)	(88%)
Extraordinary Item:				
FEMA Disaster Grant (Ice Storm)	275,100	0	275,100	N/A
Change in Net Position After Special Items and Extraordinary Item	475,424	343,925	131,499	38%
Net Position Beginning of Year	6,178,275	5,834,350	343,925	6%
Net Position End of Year	\$ 6,653,699	6,178,275	475,424	8%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2011		
Operating Revenues:				
Residential Sales	\$ 1,147,150	1,058,985	88,165	8%
Commercial Sales	1,075,043	972,168	102,875	11%
Public Street and Highway Lighting	16,193	32,363	(16,170)	(50%)
Wind Power – Residential and Commercial	468	548	(80)	(15%)
Material and Service Sales	32,513	5,571	26,942	484%
Service Income	8,205	4,840	3,365	70%
Service Income (Related Party)	4,132	4,132	0	0%
Total Operating Revenues	2,283,704	2,078,607	205,097	10%
Operating Expenses:				
Production/Processing Expense	1,357,068	1,231,074	125,994	10%
Distribution Expense	182,734	185,478	(2,744)	(1%)
Accounting and Collecting	22,727	29,717	(6,990)	(24%)
Administrative and General	168,121	172,855	(4,734)	(3%)
Free Community Service (Related Party)	101,221	106,314	(5,093)	(5%)
Free Community Service	26,256	16,950	9,306	55%
Transportation	7,449	4,929	2,520	51%
Depreciation	253,076	217,009	36,067	17%
Payroll Taxes	35,327	28,770	6,557	23%
Total Operating Expenses	2,153,979	1,993,096	160,883	8%
Operating Income	129,725	85,511	44,214	52%
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	17,150	0	17,150	N/A
Rentals	1,000	1,000	0	0%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,431	1,404	27	2%
Miscellaneous Income	53	0	53	N/A
Interest Income	7,264	19,928	(12,664)	(64%)
Insurance Proceeds (Ice/Hail Storms)	3,356	3,780	(424)	(11%)
Interest Expense	(225)	(133)	(92)	69%
Net Nonoperating Revenues (Expenses)	35,029	30,979	4,050	13%
Change in Net Position Before Special Item and Extraordinary Item	164,754	116,490	48,264	41%
Special Items:				
Energy Efficiency and Conservation Block Grant	15,509	13,150	2,359	18%
Hazard Mitigation Grant Program	32,782	0	32,782	N/A
Free Community Service (Related Party)	(12,721)	0	(12,721)	N/A
Total Special Items	35,570	13,150	22,420	170%
Extraordinary Item:				
FEMA Disaster Grant (Ice Storm)	275,100	0	275,100	N/A
Change in Net Position After Special Items and Extraordinary Item	475,424	129,640	345,784	267%
Net Position Beginning of Year	6,178,275	5,704,710	473,565	8%
Net Position End of Year	\$ 6,653,699	5,834,350	819,349	14%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2012		
Assets				
Current Assets:				
Cash	\$ 155,682	271,700	(116,018)	(43%)
Due From Other Utility Funds	60	0	60	N/A
Accounts Receivable	59,583	70,675	(11,092)	(16%)
Due From Other Governments (Related Party)	961	602	359	60%
Due From Other Governments	726	468	258	55%
Interest Receivable	3,509	0	3,509	N/A
Note Receivable - Lyon & Sioux Rural Water System, Inc.	160,972	0	160,972	N/A
Inventory	25,639	27,340	(1,701)	(6%)
Prepaid Expenses	18,025	16,593	1,432	9%
Total Current Assets	425,157	387,378	37,779	10%
Restricted Cash:				
Customer Deposits	7,310	7,705	(395)	(5%)
Capital Assets:				
Land	118,311	118,311	0	0%
Utility Plant	5,074,551	4,321,286	753,265	17%
Transportation Equipment	29,951	29,951	0	0%
Office Equipment	3,594	6,498	(2,904)	(45%)
Tools and Safety Devices	23,505	42,316	(18,811)	(44%)
Communication Equipment	1,006	1,006	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	1,060,299	1,060,299	0	0%
Total Capital Assets (Before W.L.P.)	6,316,885	5,585,335	731,550	13%
Less: Accumulated Depreciation/Amortization	(2,565,684)	(2,473,693)	(91,991)	4%
Capital Assets - Net (Before W.L.P.)	3,751,201	3,111,642	639,559	21%
Construction Work in Progress	303,495	721,435	(417,940)	(58%)
Net Capital Assets	4,054,696	3,833,077	221,619	6%
Other Asset:				
Note Receivable - Housing Development Incentive Program	0	5,567	(5,567)	(100%)
Total Assets	4,487,163	4,233,727	253,436	6%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2012		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	38,701	29,014	9,687	33%
Due To Other Utility Funds	261,233	80,062	181,171	226%
Due To Other Governments (Related Party)	100	9,387	(9,287)	(99%)
Due To Other Governments	1,841	1,790	51	3%
Construction Contracts Payable	30,696	30,922	(226)	(1%)
Accrued Vacation/Comp Time Pay	11,635	11,154	481	4%
Accrued Payroll & Payroll Liabilities	2,454	2,885	(431)	(15%)
Total Current Liabilities (Payable From Current Assets)	346,660	165,214	181,446	110%
Liabilities Payable From Restricted Cash:				
Customer Deposits	7,310	7,705	(395)	(5%)
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,638	5,522	116	2%
Advance From Other Utility Fund	1,069,816	1,137,394	(67,578)	(6%)
Total Long-Term Liabilities	1,075,454	1,142,916	(67,462)	(6%)
Total Liabilities	1,429,424	1,315,835	113,589	9%
Net Position				
Net Investment in Capital Assets	2,917,302	2,630,981	286,321	11%
Unrestricted	140,437	286,911	(146,474)	(51%)
Total Net Position	\$ 3,057,739	2,917,892	139,847	5%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2011		
Assets				
Current Assets:				
Cash	\$ 155,682	253,586	(97,904)	(39%)
Due From Other Utility Funds	60	0	60	N/A
Accounts Receivable	59,583	36,609	22,974	63%
Due From Other Governments (Related Party)	961	11,920	(10,959)	(92%)
Due From Other Governments	726	474	252	53%
Interest Receivable	3,509	0	3,509	N/A
Note Receivable - Lyon & Sioux Rural Water System, Inc.	160,972	0	160,972	N/A
Inventory	25,639	25,122	517	2%
Prepaid Expenses	18,025	16,062	1,963	12%
Total Current Assets	425,157	343,773	81,384	24%
Restricted Cash:				
Customer Deposits	7,310	6,845	465	7%
Capital Assets:				
Land	118,311	118,311	0	0%
Utility Plant	5,074,551	4,123,355	951,196	23%
Transportation Equipment	29,951	29,951	0	0%
Office Equipment	3,594	6,498	(2,904)	(45%)
Tools and Safety Devices	23,505	45,116	(21,611)	(48%)
Communication Equipment	1,006	1,006	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	1,060,299	6,710	1,053,589	15702%
Total Capital Assets (Before W.I.P.)	6,316,885	4,336,615	1,980,270	46%
Less: Accumulated Depreciation/Amortization	(2,565,684)	(2,371,558)	(194,126)	8%
Capital Assets - Net (Before W.I.P.)	3,751,201	1,965,057	1,786,144	91%
Construction Work in Progress	303,495	208,701	94,794	45%
Net Capital Assets	4,054,696	2,173,758	1,880,938	87%
Other Asset:				
Lewis & Clark Project Membership (Related Party)	0	1,053,588	(1,053,588)	(100%)
Total Assets	4,487,163	3,577,964	909,199	25%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2011		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	38,701	30,418	8,283	27%
Due To Other Utility Funds	261,233	51,785	209,448	404%
Due To Other Governments (Related Party)	100	90	10	11%
Due To Other Governments	1,841	1,331	510	38%
Construction Contracts Payable	30,696	0	30,696	N/A
Accrued Vacation/Comp Time Pay	11,635	9,932	1,703	17%
Accrued Payroll & Payroll Liabilities	2,454	2,518	(64)	(3%)
Total Current Liabilities	346,660	96,074	250,586	261%
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	7,310	6,845	465	7%
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,638	5,441	197	4%
Advance From Other Utility Fund	1,069,816	577,097	492,719	85%
Total Long-Term Liabilities	1,075,454	582,538	492,916	85%
Total Liabilities	1,429,424	685,457	743,967	109%
Net Position				
Net Investment in Capital Assets	2,917,302	2,173,758	743,544	34%
Unrestricted	140,437	718,749	(578,312)	(80%)
Total Net Position	\$ 3,057,739	2,892,507	165,232	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2012		
Operating Revenues:				
Water Sales – Metered	300,109	259,542	40,567	16%
Water Sales – Rural Water System	351,384	245,754	105,630	43%
Water Sales – Tank Loads	3,954	614	3,340	544%
Material and Service Sales	20,489	29,289	(8,800)	(30%)
Service Income	393	577	(184)	(32%)
Service Income (Related Party)	2,361	2,361	0	0%
Total Operating Revenues	678,690	538,137	140,553	26%
Operating Expenses:				
Production/Processing Expense	176,413	152,297	24,116	16%
Distribution Expense	61,848	85,038	(23,190)	(27%)
Accounting and Collecting	13,437	14,927	(1,490)	(10%)
Administrative and General	101,473	104,999	(3,526)	(3%)
Free Community Service	5,566	0	5,566	N/A
Transportation	2,905	1,662	1,243	75%
Depreciation	116,988	104,935	12,053	11%
Payroll Taxes	17,579	16,718	861	5%
Total Operating Expenses	496,209	480,576	15,633	3%
Operating Income	182,481	57,561	124,920	217%
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	0	250	(250)	(100%)
Rentals	880	880	0	0%
Customer Penalties	199	186	13	7%
Interest Income	3,594	0	3,594	N/A
Miscellaneous Income	0	40	(40)	(100%)
Insurance Settlement	5,702	0	5,702	N/A
Interest Expense (Gas Fund)	(53,009)	(33,532)	(19,477)	58%
Net Nonoperating Revenues (Expenses)	(42,634)	(32,176)	(10,458)	33%
Change in Net Position	139,847	25,385	114,462	451%
Net Position Beginning of Year	2,917,892	2,892,507	25,385	1%
Net Position End of Year	\$ 3,057,739	2,917,892	139,847	5%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2011		
Operating Revenues:				
Water Sales – Metered	\$ 300,109	250,839	49,270	20%
Water Sales – Rural Water System	351,384	179,379	172,005	96%
Water Sales – Tank Loads	3,954	372	3,582	963%
Material and Service Sales	20,489	4,149	16,340	394%
Service Income	393	592	(199)	(34%)
Service Income (Related Party)	2,361	2,361	0	0%
Total Operating Revenues	678,690	437,692	240,998	55%
Operating Expenses:				
Production/Processing Expense	176,413	55,948	120,465	215%
Distribution Expense	61,848	61,045	803	1%
Accounting and Collecting	13,437	17,882	(4,445)	(25%)
Administrative and General	101,473	96,242	5,231	5%
Free Community Service	5,566	1,550	4,016	259%
Transportation	2,905	1,396	1,509	108%
Depreciation	116,988	84,673	32,315	38%
Payroll Taxes	17,579	17,101	478	3%
Total Operating Expenses	496,209	335,837	160,372	48%
Operating Income	182,481	101,855	80,626	79%
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	0	9,650	(9,650)	(100%)
Rentals	880	880	0	0%
Customer Penalties	199	215	(16)	(7%)
Interest Income	3,594	417	3,177	762%
Insurance Proceeds (Hail Storm)	0	3,436	(3,436)	(100%)
Insurance Settlement	5,702	0	5,702	N/A
Interest Expense (Gas Fund)	(53,009)	(28,575)	(24,434)	86%
Net Nonoperating Revenues (Expenses)	(42,634)	(13,977)	(28,657)	205%
Change in Net Position	139,847	87,878	51,969	59%
Net Position Beginning of Year	2,917,892	2,804,629	113,263	4%
Net Position End of Year	\$ 3,057,739	2,892,507	165,232	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2012		
Assets				
Current Assets:				
Cash	\$ 161,155	167,843	(6,688)	(4%)
Accounts Receivable	20,009	18,084	1,925	11%
Due From Other Utility Funds	36	0	36	N/A
Due From Other Governments (Related Party)	928	506	422	83%
Due From Other Governments	692	444	248	56%
Prepaid Expenses	15,765	13,823	1,942	14%
Total Current Assets	198,585	200,700	(2,115)	(1%)
Restricted Cash:				
Depreciation Reserves	13,518	12,578	940	7%
Capital Assets:				
Utility Plant	2,265,053	2,235,191	29,862	1%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	1,797	730	1,067	146%
Tools and Safety Devices	12,696	25,251	(12,555)	(50%)
Intangibles	3,355	3,355	0	0%
Total Capital Assets (Before W.I.P.)	2,321,281	2,302,907	18,374	1%
Less: Accumulated Depreciation/Amortization	(1,467,760)	(1,443,228)	(24,532)	2%
Capital Assets - Net (Before W.I.P.)	853,521	859,679	(6,158)	(1%)
Construction Work in Progress	57,424	64,184	(6,760)	(11%)
Net Capital Assets	910,945	923,863	(12,918)	(1%)
Total Assets	1,123,048	1,137,141	(14,093)	(1%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Position

	<u>June 30,</u>		<u>Amount of</u>	<u>Percentage</u>
	<u>2013</u>	<u>2012</u>		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	7	1,964	(1,957)	(100%)
Due to Other Utility Funds	19,469	16,157	3,312	20%
Due To Other Governments (Related Party)	50	45	5	11%
Due To Other Governments	273	240	33	14%
Accrued Vacation/Comp Time Pay	7,838	8,066	(228)	(3%)
Accrued Payroll & Payroll Liabilities	2,116	2,139	(23)	(1%)
Total Current Liabilities	29,753	28,611	1,142	4%
(Payable From Current Assets)				
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,493	5,377	116	2%
Advance From Other Utility Fund	31,669	48,614	(16,945)	(35%)
Total Long-Term Liabilities	37,162	53,991	(16,829)	(31%)
Total Liabilities	66,915	82,602	(15,687)	(19%)
Net Position				
Net Investment in Capital Assets	862,331	859,092	3,239	0%
Restricted for:				
Depreciation Reserves	13,518	23,345	(9,827)	(42%)
Unrestricted	180,284	182,869	(2,585)	(1%)
Total Net Position	\$ 1,056,133	1,065,306	(9,173)	(1%)

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2011		
Assets				
Current Assets:				
Cash	\$ 161,155	180,803	(19,648)	(11%)
Accounts Receivable	20,009	19,047	962	5%
Due From Other Utility Funds	36	19,047	(19,011)	(100%)
Due From Other Governments (Related Party)	928	592	336	57%
Due From Other Governments	692	546	146	27%
Prepaid Expenses	15,765	12,370	3,395	27%
Total Current Assets	198,585	232,405	(33,820)	(15%)
Restricted Cash:				
Depreciation Reserves	13,518	12,578	940	7%
Capital Assets:				
Utility Plant	2,265,053	2,217,179	47,874	2%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	1,797	730	1,067	146%
Tools and Safety Devices	12,696	30,251	(17,555)	(58%)
Intangibles	3,355	3,355	0	0%
Total Capital Assets (Before W.I.P.)	2,321,281	2,289,895	31,386	1%
Less: Accumulated Depreciation/Amortization	(1,467,760)	(1,402,693)	(65,067)	5%
Capital Assets - Net (Before W.I.P.)	853,521	887,202	(33,681)	(4%)
Construction Work in Progress	57,424	53,940	3,484	6%
Net Capital Assets	910,945	941,142	(30,197)	(3%)
Total Assets	1,123,048	1,186,125	(63,077)	(5%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2011		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	7	2,578	(2,571)	(100%)
Due to Other Utility Funds	19,469	15,396	4,073	26%
Due To Other Governments (Related Party)	50	45	5	11%
Due To Other Governments	273	206	67	33%
Construction Contracts Payable	0	2,020	(2,020)	(100%)
Accrued Vacation/Comp Time Pay	7,838	7,144	694	10%
Accrued Payroll & Payroll Liabilities	2,116	1,978	138	7%
Total Current Liabilities (Payable From Current Assets)	29,753	29,367	386	1%
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,493	5,300	193	4%
Advance From Other Utility Fund	31,669	64,771	(33,102)	(51%)
Total Long-Term Liabilities	37,162	70,071	(32,909)	(47%)
Total Liabilities	66,915	99,438	(32,523)	(33%)
Net Position				
Net Investment in Capital Assets	862,331	860,975	1,356	0%
Restricted for:				
Depreciation Reserves	13,518	12,578	940	7%
Unrestricted	180,284	194,087	(13,803)	(7%)
Total Net Position	\$ 1,056,133	1,067,640	(11,507)	(1%)

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2012		
Operating Revenues:				
Sewer Service	\$ 241,138	234,922	6,216	3%
Service Income (Related Party)	1,180	1,180	0	0%
Total Operating Revenues	242,318	236,102	6,216	3%
Operating Expenses:				
Production/Processing Expense	122,439	113,853	8,586	8%
Accounting and Collecting	6,550	6,615	(65)	(1%)
Administrative and General	56,447	54,007	2,440	5%
Free Community Service (Related Party)	5,280	5,280	0	0%
Transportation	3,415	2,982	433	15%
Depreciation	42,135	40,535	1,600	4%
Payroll Taxes	12,661	11,843	818	7%
Total Operating Expenses	248,927	235,115	13,812	6%
Operating Income (Loss)	(6,609)	987	(7,596)	(770%)
Nonoperating Revenues (Expenses):				
Customer Penalties	179	183	(4)	(2%)
Interest Expense (Gas Fund)	(2,743)	(3,504)	761	(22%)
Net Nonoperating Revenues (Expenses)	(2,564)	(3,321)	757	(23%)
Change in Net Position	(9,173)	(2,334)	(6,839)	293%
Net Position Beginning of Year	1,065,306	1,067,640	(2,334)	(0%)
Net Position End of Year	\$ 1,056,133	1,065,306	(9,173)	(1%)

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2011		
Operating Revenues:				
Sewer Service	\$ 241,138	236,370	4,768	2%
Material and Service Sales	0	450	(450)	(100%)
Service Income (Related Party)	1,180	1,180	0	0%
Total Operating Revenues	242,318	238,000	4,318	2%
Operating Expenses:				
Production/Processing Expense	122,439	119,463	2,976	2%
Accounting and Collecting	6,550	7,068	(518)	(7%)
Administrative and General	56,447	55,279	1,168	2%
Free Community Service (Related Party)	5,280	3,838	1,442	38%
Transportation	3,415	3,098	317	10%
Depreciation	42,135	34,790	7,345	21%
Payroll Taxes	12,661	11,480	1,181	10%
Total Operating Expenses	248,927	235,016	13,911	6%
Operating Income (Loss)	(6,609)	2,984	(9,593)	(321%)
Nonoperating Revenues (Expenses):				
Customer Penalties	179	204	(25)	(12%)
Interest Income	0	355	(355)	(100%)
Hail Insurance Proceeds	0	1,001	(1,001)	(100%)
Interest Expense (Gas Fund)	(2,743)	(4,169)	1,426	(34%)
Net Nonoperating Revenues (Expenses)	(2,564)	(2,609)	45	(2%)
Change in Net Position Before Special Item	(9,173)	375	(9,548)	(2546%)
Special Item:				
WTFAP Grant	0	869	(869)	(100%)
Change in Net Position After Special Item	(9,173)	1,244	(10,417)	(837%)
Net Position Beginning of Year	1,065,306	1,066,396	(1,090)	(0%)
Net Position End of Year	\$ 1,056,133	1,067,640	(11,507)	(1%)

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2012		
Assets				
Current Assets:				
Cash	\$ 329,186	628,288	(299,102)	(48%)
Certificates of Deposit	2,125,000	1,900,000	225,000	12%
Accounts Receivable	64,784	86,099	(21,315)	(25%)
Due From Other Utility Funds	275,431	96,219	179,212	186%
Due From Other Governments (Related Party)	1,521	1,087	434	40%
Due From Other Governments	1,338	399	939	235%
Interest Receivable	8,220	6,325	1,895	30%
Note Receivable - Rock Rapids Development Corporation	6,000	6,000	0	0%
Inventory	38,856	38,543	313	1%
Prepaid Expenses	12,335	12,412	(77)	(1%)
Total Current Assets	2,862,671	2,775,372	87,299	3%
Restricted Cash:				
Customer Deposits	24,470	31,725	(7,255)	(23%)
Capital Assets:				
Land	13,863	13,863	0	0%
Utility Plant	1,090,919	1,073,144	17,775	2%
Transportation Equipment	89,949	101,000	(11,051)	(11%)
Office Equipment	8,176	7,596	580	8%
Tools and Safety Devices	73,097	73,097	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets	1,287,994	1,280,690	7,304	1%
Less: Accumulated Depreciation/Amortization	(645,198)	(618,364)	(26,834)	4%
Net Capital Assets	642,796	662,326	(19,530)	(3%)
Other Assets:				
Advances To Other Utility Funds	1,101,485	1,186,008	(84,523)	(7%)
Notes Receivable - Rock Rapids Development Corporation	197,553	197,553	0	0%
Note Receivable - Housing Development				
Incentive Program	69,717	29,716	40,001	135%
Total Other Assets	1,368,755	1,413,277	(44,522)	(3%)
Total Assets	4,898,692	4,882,700	15,992	0%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Position

	June 30,		Amount of Change	Percentage of Change
	2013	2012		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	693	1,001	(308)	(31%)
Due To Other Utility Funds	100	0	100	N/A
Due To Other Governments (Related Party)	18,723	18,698	25	0%
Due To Other Governments	998	1,462	(464)	(32%)
Accrued Vacation/Comp Time Pay	16,634	18,029	(1,395)	(8%)
Accrued Payroll & Payroll Liabilities	3,355	4,938	(1,583)	(32%)
Unearned Income	38,520	116,716	(78,196)	(67%)
Total Current Liabilities (Payable From Current Assets)	79,023	160,844	(81,821)	(51%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	24,470	31,725	(7,255)	(23%)
Long-Term Liabilities:				
Accrued Sick Leave Pay	10,649	10,432	217	2%
Total Liabilities	114,142	203,001	(88,859)	(44%)
Net Position				
Net Investment in Capital Assets	642,796	662,326	(19,530)	(3%)
Unrestricted	4,141,754	4,017,373	124,381	3%
Total Net Position	\$ 4,784,550	4,679,699	104,851	2%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Position

	<u>June 30,</u>		Amount of Change	Percentage of Change
	2013	2011		
Assets				
Current Assets:				
Cash	\$ 329,186	727,666	(398,480)	(55%)
Certificates of Deposit	2,125,000	2,325,000	(200,000)	(9%)
Accounts Receivable	64,784	69,880	(5,096)	(7%)
Due From Other Utility Funds	275,431	67,181	208,250	310%
Due From Governmental (Revolving Loan) Fund	0	501	(501)	(100%)
Due From Other Governments (Related Party)	1,521	814	707	87%
Due From Other Governments	1,338	1,749	(411)	(23%)
Note Receivable - Rock Rapids Development Corporation	6,000	5,447	553	10%
Interest Receivable	0	13,460	(13,460)	(100%)
Inventory	38,856	33,882	4,974	15%
Prepaid Expenses	12,335	11,389	946	8%
Total Current Assets	2,854,451	3,256,969	(402,518)	(12%)
Restricted Cash:				
Customer Deposits	24,470	30,238	(5,768)	(19%)
Capital Assets:				
Land	13,863	13,863	0	0%
Utility Plant	1,090,919	920,217	170,702	19%
Transportation Equipment	89,949	101,000	0	0%
Office Equipment	8,176	7,596	580	8%
Tools and Safety Devices	73,097	75,897	(2,800)	(4%)
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	1,287,994	1,130,563	168,482	15%
Less: Accumulated Depreciation/Amortization	(645,198)	(583,746)	(61,452)	11%
Capital Assets - Net (Before W.I.P)	642,796	546,817	107,030	20%
Construction Work in Progress	0	81,440	(81,440)	(100%)
Net Capital Assets	642,796	628,257	25,590	4%
Other Assets:				
Advances To Other Utility Funds	1,101,485	641,868	459,617	72%
Notes Receivable - Rock Rapids Development Corporation	197,553	209,553	(12,000)	(6%)
Note Receivable - Housing Development				
Incentive Program	69,717	0	69,717	N/A
Total Other Assets	1,368,755	851,421	517,334	61%
Total Assets	4,890,472	4,766,885	134,638	3%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Position

	<u>June 30,</u>		<u>Amount of</u>	<u>Percentage</u>
	<u>2013</u>	<u>2011</u>		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	693	5,054	(4,361)	(86%)
Due To Other Utility Funds	100	1,050	(950)	(90%)
Due To Other Governments (Related Party)	18,723	21,429	(2,706)	(13%)
Due To Other Governments	998	1,050	(52)	(5%)
Accrued Vacation/Comp Time Pay	16,634	15,473	1,161	8%
Accrued Payroll & Payroll Liabilities	3,355	3,984	(629)	(16%)
Unearned Income	38,520	59,412	(20,892)	(35%)
Total Current Liabilities	79,023	107,452	(28,429)	(26%)
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	24,470	30,238	(5,768)	(19%)
Long-Term Liabilities:				
Accrued Sick Leave Pay	10,649	10,279	370	4%
Total Liabilities	114,142	147,969	(33,827)	(23%)
Net Assets				
Invested in Capital Assets	642,796	628,257	14,539	2%
Unrestricted	4,141,754	3,991,709	150,045	4%
Total Net Assets	\$ 4,784,550	4,619,966	164,584	4%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2012		
Operating Revenues:				
Residential Gas Sales	\$ 652,003	591,359	60,644	10%
Commercial Gas Sales	346,037	292,786	53,251	18%
Material and Service Sales	590	1,899	(1,309)	(69%)
Service Income	650	870	(220)	(25%)
Service Income (Related Party)	4,132	4,132	0	0%
Total Operating Revenues	1,003,412	891,046	112,366	13%
Operating Expenses:				
Production/Processing Expense	648,309	550,119	98,190	18%
Distribution Expense	74,136	114,980	(40,844)	(36%)
Accounting and Collecting	26,273	25,923	350	1%
Administrative and General	150,745	153,679	(2,934)	(2%)
Free Community Service	15,032	0	15,032	N/A
Transportation	4,714	5,038	(324)	(6%)
Depreciation	41,040	37,418	3,622	10%
Payroll Taxes	24,436	23,971	465	2%
Total Operating Expenses	984,685	911,128	73,557	8%
Operating Income (Loss)	18,727	(20,082)	38,809	(193%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	0	250	(250)	(100%)
Customer Penalties	912	823	89	11%
Gas Rate Case Settlement	0	3,304	(3,304)	(100%)
Interest Income	26,578	38,339	(11,761)	(31%)
Interest Income (Water, Sewer Funds)	55,752	37,036	18,716	51%
Miscellaneous Income	0	328	(328)	(100%)
Construction Support Payment	3,176	0	3,176	N/A
Interest Expense	(294)	(265)	(29)	11%
Net Nonoperating Revenues (Expenses)	86,124	79,815	6,309	8%
Change in Net Assets	104,851	59,733	45,118	76%
Net Position Beginning of Year	4,679,699	4,619,966	59,733	1%
Net Position End of Year	\$ 4,784,550	4,679,699	104,851	2%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Position

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2013	2011		
Operating Revenues:				
Residential Gas Sales	\$ 652,003	\$ 747,290	(95,287)	(13%)
Commercial Gas Sales	346,037	381,605	(35,568)	(9%)
Material and Service Sales	590	267	323	121%
Service Income	650	1,017	(367)	(36%)
Service Income (Related Party)	4,132	4,132	0	0%
Total Operating Revenues	1,003,412	1,134,311	(130,899)	(12%)
Operating Expenses:				
Production/Processing Expense	648,309	784,235	(135,926)	(17%)
Distribution Expense	74,136	116,715	(42,579)	(36%)
Accounting and Collecting	26,273	29,097	(2,824)	(10%)
Administrative and General	150,745	158,430	(7,685)	(5%)
Free Community Service	15,032	7,975	7,057	88%
Transportation	4,714	4,825	(111)	(2%)
Depreciation	41,040	39,811	1,229	3%
Payroll Taxes	24,436	22,985	1,451	6%
Total Operating Expenses	984,685	1,164,073	(179,388)	(15%)
Operating Income (Loss)	18,727	(29,762)	48,489	(163%)
Nonoperating Revenues (Expenses):				
Customer Penalties	912	1,351	(439)	(32%)
Gas Rate Case Settlement	0	3,233	(3,233)	(100%)
Interest Income	26,578	59,741	(33,163)	(56%)
Interest Income (Water, Sewer Funds)	55,752	32,744	23,008	70%
Insurance Proceeds (Hail Storm)	0	1,901	(1,901)	(100%)
Construction Support Payment	3,176	0	3,176	N/A
Interest Expense	(294)	(246)	(48)	20%
Net Nonoperating Revenues (Expenses)	86,124	98,724	(12,600)	(13%)
Change in Net Position Before Other Financing Use	104,851	68,962	35,889	52%
Other Financing Use:				
Operating Transfers Out (Transfer to Establish a New Revolving Loan Fund)	0	(60,000)	60,000	(100%)
Change in Net Position After Other Financing Use	104,851	8,962	95,889	1070%
Net Position Beginning of Year	4,679,699	4,611,004	68,695	1%
Net Position End of Year	\$ 4,784,550	4,619,966	164,584	4%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

DE NOBLE, AUSTIN & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246
www.denoblepc.com

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549
Fax : (712) 472-2540
Email : cpas@denoblepc.com

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Members of the Utilities Board of Trustees:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a Component Unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated January 27, 2014.

The report on the business type activities and the proprietary funds was adverse due to management not recording the net other postemployment benefits (OPEB liability), the corresponding OPEB expense and the disclosures on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amounts by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures are not reasonably determinable.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rock Rapids Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the

Rock Rapids Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Rock Rapids Municipal Utilities' internal control described in the accompanying Schedule of Findings as items 13-A, B, C and D to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item 13-E to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rock Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Rock Rapids Municipal Utilities' Responses to Findings

The Rock Rapids Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Rock Rapids Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble, Austin & Company PC

De Noble & Company PC
d/b/a De Noble, Austin & Company PC
Certified Public Accountants

January 27, 2014

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

Fiscal Year Ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- 13-A Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of assets and various aspects of the recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its operating procedures to obtain the maximum internal control possible under the circumstances. The Utilities inability to eliminate segregation of duties issues reduces the effectiveness of the Utilities control environment and increases the risk of material errors, theft or fraud not being detected.

Response – We will continue to attempt to segregate duties to the extent possible within economic constraints.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel/governing body members to provide additional control through review of financial transactions and reports

- 13-B Financial Reporting – During the audit, we identified material amounts of assets, liabilities, net positions, revenues and expenses not recorded properly in the Utilities' financial statements and disclosures not properly being reported on in the Utilities' notes to the financial statements. Many of the assets and liabilities were not reconciled between the general ledger and the corresponding detailed subsidiary records. Additionally, there were several improper bank reconciling items on some of the bank reconciliations, which resulted in the bank statement balances and the proof of cash totals not reconciling to the detailed general ledger cash accounts for several months of the fiscal year. Adjustments/disclosure changes were subsequently made by the Utilities to properly include these amounts, including making sure subsidiary detail and general ledger control accounts all properly reconciled, and disclosures in the financial statements and notes except as previously noted for the OPEB obligation.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

Fiscal Year Ended June 30, 2013

Recommendation – The Utilities should implement procedures and controls and conduct staff training to ensure all assets, liabilities, net positions, revenues, expenses and disclosures are identified and included in the Utilities' financial statements and notes. Detailed subsidiary records should be prepared for general ledger control accounts and reconciliations of these records should be prepared on a monthly basis by an independent person. Bank statement reconciliations need to be verified that only deposits and checks that have not properly cleared the bank and are an actual deposit/withdrawal are listed reconciling the bank statement to the proof of cash totals and the detailed general ledger cash accounts. Management should be monitoring procedures and controls and reviewing the financial records/reporting on a regular basis to help ensure the accuracy of the financial records/reporting.

Response – We have made improvements during the fiscal year to our accounting procedures and controls and we will continue to strive on improving our financial records/reporting going forward.

Conclusion – Response accepted. Please continue to develop procedures and controls to improve financial reporting.

- 13-C Payroll Procedures – We noted numerous handwritten entries on the timecards, rather than a time being recorded by the time clock. Also, there were several instances identified where an employee's time card and time sheet did not match as to the total time worked; in each situation, the employee was paid for the hours shown on the time sheet, not what was recorded by the time clock.

Recommendation – Any handwritten entries on the time cards should be kept to a minimum and should be approved and initialed by management. An employee's time sheet needs to match the employee's time card; any discrepancy between an employee's time card and time sheet needs to be formally documented as to the reasoning and initialed as approved by management.

Response – We will implement procedures to address the payroll procedures noted.

Conclusion – Response accepted. Please evaluate your payroll procedures.

- 13-D Management Procedures – Based on findings during the audit, we identified that there appears to be a need for a higher level of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

Fiscal Year Ended June 30, 2013

Recommendation – Utilities management needs to evaluate policies and procedures to ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. Utilities management needs to review audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development/enforcement of policies and procedures.

Response – We will continue to work toward implementing your recommendations.

Conclusion – Response accepted.

- 13-E Disbursement Procedures –We noted several instances where the only supporting documentation on file was a copy of a credit card slip (no detailed support – mainly for meal reimbursements and a room service charge).

Recommendation – All disbursements, including employee reimbursements, credit card charges and petty cash disbursements, need to be supported by an actual receipt or invoice that supports the disbursement in detail. Meal reimbursements must be supported by a receipt detailing what was purchased. The receipt or invoice needs to be marked “paid” or otherwise cancelled upon payment to avoid duplicate payment and needs to be retained and filed as proof for the disbursement.

Response – We will stress to our staff the importance of retaining detailed support for all charges.

Conclusion – Response accepted. Please review documentation retention procedures, especially for meal reimbursements and credit card charges in general.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

Fiscal Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

13-1 Certified Budget – The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements, included in the City’s budget for the Utilities, during the fiscal year ended June 30, 2013 did not exceed the original budgeted amounts (before being amended) or the final amended budget amount for the Rock Rapids Municipal Utilities.

13-2 Questionable Expenses – Certain expenses we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented or the necessary documentation to support the expense was not present were noted. These expenses are detailed as follows:

We noted that the only support for several credit card charges was a copy of a credit card slip and no detailed receipt/supporting documentation. The charges were mainly for meal reimbursements and a hotel stay.

According to the opinion, it is possible for such expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – All disbursements should be supported by an actual receipt/invoice that supports the expense in detail. Credit card charges must be supported by a receipt detailing what was purchased.

Response –We will evaluate our disbursement procedures to make sure we retain proper supporting documentation.

Conclusion – Response accepted.

13-3 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted. However, please see “Other Findings Related to Required Statutory Reporting: 13-2” for a possible related comment.

13-4 Business Transactions – No business transactions between the Utilities and Utilities officials, employees or family members of officials/employees were noted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

Fiscal Year Ended June 30, 2013

13-5 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

13-6 Board Minutes – The Board minutes did not reflect that two employees were approved to be paid at hourly rates that varied from “Resolution Amending Personnel Rules and Regulations to Revise Employee Salaries.”

Recommendation – Any transaction that differs from a Board established policy or resolution needs to be formally approved in the Board minutes.

Response – We will comply with your recommendation in the future.

Conclusion – Response accepted.

13-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.

13-8 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2013.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
Nathan Hoekstra, Assistant Auditor
Kayla Reck, Assistant Auditor

De Noble & Company PC
d/b/a De Noble, Austin & Company PC
Certified Public Accountants